Manitoba

REPORT OF THE PROVINCIAL AUDITOR

to the Legislative Assembly for the fiscal year ended March 31, 1984

85-2694/

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REPORT OF THE PROVINCIAL AUDITOR FOR THE YEAR ENDED MARCH 31, 1984

LEGAL PROVISIONS, INTRODUCTORY COMMENTS, AND A SUMMARY OF RECOMMENDATIONS AND MATTERS OF CONCERN

This report is being made to the Legislative Assembly of Manitoba for the fiscal year ended March 31, 1984 in compliance with subsections (1), (1.1), (2) and (3) of section 13 of The Provincial Auditor's Act. These subsections of section 13 of the Act are as follows:

Report to assembly.

13(1) The Provincial Auditor shall report annually to the assembly

(a) on the work of his office; and

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Content of the report.

13(1.1) Each report of the Provincial Auditor under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the assembly, including any cases in which he has observed

(a) that accounts have not been faithfully and properly maintained or public moneys which are required by law to be fully accounted for and paid into the Consolidated Fund have not been so accounted for and paid;

(b) that essential records have not been maintained or that the rules and procedures applied have been insufficient

(i) to safeguard and control public property, or

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue, or

(iii) to ensure that expenditures have been made only as authorized; and

(c) that public moneys have been expended other than for the purposes for which it was appropriated by the Legislature.

Submission of report.

13(2) The report of the Provincial Auditor shall, on or before the thirty-first day of December next after the close of the fiscal year for which it was made, be delivered to the Lieutenant Governor in Council to be laid before the assembly if it is then in session, or, if the assembly is not then in session, within fifteen days after the commencement of the next ensuing session.

Distribution of report to members of assembly.

13(3) The Lieutenant Governor in Council, upon receiving the report of the Provincial Auditor, shall direct that copies of the report be sent to the members of the assembly.

In accordance with the aforementioned requirements of the Act, I report on significant matters where difficulties have been observed and any other matters which I consider should be brought to the attention of the Legislative Assembly. This is being done in a manner as outlined in Exhibit 1 of this report under reporting procedures. The report maintains continuity of matters reported from year to year. Any observations in the previous year's report which required further action are commented on again in this year's report, providing an updated position.

LEGAL PROVISIONS, INTRODUCTORY COMMENTS, AND A SUMMARY OF RECOMMENDATIONS AND MATTERS OF CONCERN

I also report that, in carrying on the work of my office, I received all the information and explanations I required.

The various matters being reported are commented on under the following headings in this report:

Assets and Liabilities - Overview Comments
Operating Fund Assets and Liabilities
Trust Fund Assets and Liabilities
Revenue and Expenditure
Special Warrants
Government's Central Management System
Government-Wide Reviews
Review of Government Control over Compensation by Crown Agencies
Departments and Agencies Operations
Organization and Activities of the Provincial Auditor's Office
Acknowledgements

The report also includes 12 exhibits which provide additional information for matters commented on. A number of these exhibits are reproductions from the Public Accounts - the main financial statements and my report thereon. A list of the exhibits is provided on page 48.

In reading this report, the manner of reporting by exception must be kept in mind so that an excessively negative impression of the overall operations is not concluded.

A summary of more significant recommendations and matters of concern included in the various sections of this report is as follows:

Revenue and Expenditure

- A more appropriate method of funding and disclosure of losses realized by crown corporations is required.
- The net operating deficit shown on the statement of Summary of Revenue and Expenditure is not a realistic representation of the net deficit on operations.
- Questionable interest income of the Manitoba Development Corporation resulting from interest payments from the Appropriation on surplus equity funds on deposit with the Minister of Finance.
- A subsidy is being paid by the Manitoba Development Corporation which normally is paid from an Appropriation.

Government's Central Management System

- Further improvements in fiscal planning by way of a formalized long-range fiscal plan communicated through the Legislative process.
- More systematic presentation of the Province's financial position and economic strength in the Annual Budget.
- More accountability data for the Jobs. Fund Appropriation in the Legislative Expenditure Estimates.
- Supplementary data should be provided to the Legislature by all departments from their Departmental Expenditure Estimates as support information for their Main Estimates.
- Departments should provide an accountability based on the approved Estimates in their Departmental Annual Reports.

LEGAL PROVISIONS, INTRODUCTORY COMMENTS, AND A SUMMARY OF RECOMMENDATIONS AND MATTERS OF CONCERN

— A review of the departments' costing methods is required and appropriate guidelines provided.

Review of Government Control Over Compensation by Crown Agencies

— Variations in compensation levels of senior executives were noted of a kind for which the reasons were not readily apparent.

Departments and Agencies Operations

Department of Education

— Update the Regulation to discontinue the long delay in the remittance of school taxes collected by municipal corporations resulting in unnecessary financing expenses for school divisions.

Department of Health

— Establish appropriate monitoring systems for private medical practices of physicians employed as civil servants.

Department of Highways and Transportation

— A lack of enforcement of unpaid parking violations.

Manitoba Development Corporation

— Difficulties in operations of Flyer Industries Limited have not been resolved as yet and a very substantial loss is anticipated.

— The findings arising from a special audit of A.E. McKenzie Co. Ltd. are still being investigated by the police and a civil action which was initiated is also still in progress.

Manitoba Health Services Commission

— The accountability for overhead recoveries and remuneration for medical services at the teaching hospitals is not yet at a satisfactory level.

Manitoba Housing and Renewal Corporation

— The Corporation's control over expenditures was not adequate resulting in overexpenditures which may not be recovered from the Canada Mortgage and Housing Corporation.

Workers Compensation Board

— Non-compliance with the Act in setting rates has resulted in substantial deficits and a deterioration in the Fund's financial position.

ASSETS AND LIABILITIES — OVERVIEW COMMENTS

Accounting policies

The assets and liabilities are accounted for in accordance with accounting policies stated in the Public Accounts and reproduced in this report in Exhibit 12. The assets and liabilities are reflected in the Consolidated Fund which is divided into two sections: operating fund assets and liabilities; and, trust fund assets and liabilities.

There were three significant one-time adjustments made to prior years' deficits to give effect to: an acceleration of payments to school divisions consistent with their expenditure; an inclusion as revenue, taxes held by collection agents at the year end; and, a write-off of investment in Manitoba Forestry Resources Ltd. pertaining to capital losses sustained during construction of the plants. I agree with these adjustments, which are explained more fully in other sections of this report.

There has been no change in the accounting policies to reflect current losses sustained by Crown Agencies as an expenditure of the Province. This matter is commented on more fully in the Revenue and Expenditure section of this report.

Operating fund assets and liabilities

The operating fund assets and liabilities are stated in the Public Accounts, and the statement is reproduced in this report in Exhibit 8.

The total liabilities increased by $899.1 million at March 31, 1984 from the preceding year end, from $4,447.1 million to $5,346.2 million. The total increase resulted from increases in public debt of $857.9 million and accounts payable and other liabilities of $69.0 million, less a decrease in the amount of trust funds used for operations of $27.8 million.

Funds resulting from the increased total liabilities of $899.1 million were applied as follows:

Deficit for the year ended March 31, 1984	$ 428.9
Advances to and investments in Government Agencies	98.0
Temporary investments and other assets	88.1
	615.0
Transfer of Manitoba School Capital Financing Authority investments from the Trust Fund	201.2
Write-off of investment in Manitoba Forestry Resources Ltd.	51.3
Acceleration of payments to School Divisions	72.1
Inclusion as revenue taxes held by collection agents	(40.5)
Total increase	$ 899.1

Further particulars on these matters are included in the next section of this report.

Guaranteed Debt and Indirect Liabilities

The guaranteed and indirect liabilities, reflected in the statement of Operating Fund Assets and Liabilities, decreased by $261.1 million at March 31, 1984 from the preceding year and, from $1,663.7 million to $1,402.6 million. The total decrease is accounted for as follows:

Transfer of Manitoba School Capital Financing Authority guaranteed debt to direct debt	$ 215.2
Refinancing of Government Agency guaranteed debt by way of direct debt	14.7
Retirement of maturing debt	13.5
Increase in sinking funds	17.7
Total decrease	$ 261.1

Further particulars on these matters are included in the next section of this report.

ASSETS AND LIABILITIES — OVERVIEW COMMENTS

Trust fund assets and liabilities

The trust fund assets and liabilities are stated in the Public Accounts, and the statement is reproduced in this report in Exhibit 8.

The trust fund assets and liabilities are segregated into two categories: administered trust funds; and custodial trust funds.

The administered trust funds increased by $62.2 million at March 31, 1984 from the preceding year end, from $883.8 million to $946.0 million. The total increase consisted of the following increases:

Miscellaneous trust accounts	$ 25.7
Sinking funds for securities issued by government agencies	18.3
Funds on deposit for investment	15.4
Other	2.8
Total increase	$ 62.2

The custodial trust funds decreased by $199.1 million at March 31, 1984 from the preceding year end, from $615.2 million to $416.1 million. The net decrease consisted of the following:

Decrease arising from the transfer of school debentures held as an offset to Manitoba School Capital Financing Authority debt, assumed as direct debt of the Province	$ 212.3
Sundry net increase	13.2
Net decrease	$ 199.1

Further particulars are included in the Trust Fund Assets and Liabilities section of this report.

OPERATING FUND ASSETS AND LIABILITIES

Working Capital

The particulars of the working capital are as follows (*in millions of dollars*):

	March 31		Increase
	1984	1983	(Decrease)
Assets			
Temporary investments	$ 799.7	$ 772.8	$ 26.9
Current amounts due from Canada and other external sources	89.0	33.5	55.5
	888.7	806.3	82.4
Liabilities			
Amount owing to the Trust Fund	469.7	497.5	(27.8)
Bank overdraft and promissory notes	80.5	18.6	61.9
Accounts payable, accrued charges and funds subject to call	374.7	367.6	7.1
	924.9	883.7	41.2
Assets (under) over liabilities	$ (36.2)	$ (77.4)	$ 41.2

The cash flow, except for bank short-term borrowing and trust funds, is generally consistent from year to year. The ratio of assets to liabilities is mainly dependent on the timing of long-term borrowing to refinance short-term bank borrowing. There can also be fluctuations in the amount of trust funds used depending on their availability. In accordance with an order of the Lieutenant Governor in Council, the aggregate of promissory notes outstanding and bank lines of credit utilized is not to exceed $350 million.

In addition to the current amounts due from Canada and other external sources shown above of $89.0 million at March 31, 1984 ($33.5 million at March 31, 1983), accounts receivable from municipal corporations and other third parties of $40.0 million at March 31, 1984 ($34.3 million at March 31, 1983) are included in the Public Accounts in Advances and Other Receivables from Government of Canada and Others amount of the Operating Fund Assets and Liabilities statement. All these accounts are considered to be collectible except for a Legal Aid shared cost claim from Canada of $1.4 million, which is presently under negotiation, and an advance of $3.0 million to Canadian Co-Operative Implements Ltd., which is experiencing significant operating losses and is in an accumulated deficit position.

Last year I recommended that consideration be given to changing the accounting policies to more appropriately reflect the year end working capital position. I am pleased to report that two of the recommendations have been implemented in the fiscal year ended March 31, 1984, being the recording in the appropriate fiscal year the school division expenditure and the revenue held by collection agents. The change to implement the recommendation to discontinue accruing interest payable to be consistent with the treatment of all other expenditure has been approved to be made in the fiscal year ending March 31, 1985. This delay avoids unnecessary prior period adjustments. The effects of the two changes made in 1984 on the excess of liabilities over recorded assets are explained under that heading in this section of this report.

Advances to and Long-Term Investments in Government Agencies, Tantalum Mining Corporation of Canada Limited and Northland Bank

Investments in government agencies are the same as advances except that they are covered by legal instruments consisting of debentures and shares.

The particulars of the net change in advances, long-term investments, allowances for losses and sinking funds are as follows (*in millions of dollars*):

OPERATING FUND ASSETS AND LIABILITIES

	March 31 1984	March 31 1983	Increase (Decrease)
Government agencies:			
Advances	$ 2,130.2	$ 2,031.3	$ 98.9
Investments	247.4	243.5	3.9
	2,377.6	2,274.8	102.8
Other investments:			
Tantalum Mining Corporation of Canada Limited	3.3	3.3	—
Northland Bank	.5	.5	—
	2,381.4	2,278.6	102.8
Less:			
Allowances for losses on the basis of accumulated deficits in accordance with the most recent audited financial statements	131.6	134.9	(3.3)
Sinking funds of government agencies on account of debt incurred by the Province	88.7	83.9	4.8
	220.3	218.8	1.5
	$ 2,161.1	$ 2,059.8	
Net change			$ 101.3

The net change of $101.3 million shown in the foregoing statement by agencies is as follows (*in millions of dollars*):

Agency	Advances and Investments	Less: Allowance for Losses	Less: Sinking Funds	Net Change
Manitoba Agricultural Credit Corporation	$ 22.4	$ —	$ —	$ 22.4
Manitoba Beef Stabilization Fund	6.0	4.6	—	1.4
Manitoba Data Services	(.9)	(.4)	—	(.5)
Manitoba Development Corporation	(2.5)	13.8	—	(16.3)
Manitoba Forestry Resources Ltd.	26.0	24.8	—	1.2
Manitoba Hog Income Stabilization Plan	4.5	4.5	—	—
Manitoba Housing & Renewal Corporation	56.0	—	.4	55.6
Manitoba Hydro Electric Board	17.3	—	4.2	13.1
Manitoba Mineral Resources Ltd.	4.2	1.0	—	3.2
Manitoba Oil and Gas Corporation	5.0	—	—	5.0
Manitoba Telephone System	11.9	—	.2	11.7
Manitoba Text Book Bureau	2.0	—	—	2.0
Manitoba Water Services Board	2.2	(.3)	—	2.5
	154.1	48.0	4.8	101.3
Manitoba Forestry Resources Ltd. investments written off	(51.3)	(51.3)	—	—
Increase (Decrease)	$102.8	$ (3.3)	$ 4.8	$ 101.3

The principal repayments and/or interest charges for some of the advances are dependent on total or partial funding from future appropriations of the Consolidated Fund. The major agencies to which this applies

are the Manitoba Housing and Renewal Corporation for most of the principal and interest funding and the Manitoba Agricultural Credit Corporation for partial interest funding only.

Excess of Liabilities over Recorded Assets

Changes in the excess of liabilities over recorded assets are as follows (*in millions of dollars*):

	March 31		Increase
	1984	1983	(Decrease)
Accumulation of the excess of expenditure over revenue and advances to and investments in government agencies written off:			
Balance at beginning of year	$ 1,411.8	$ 977.1	$ 434.7
Adjustment to the balance:			
Prior year's school expenditure	72.1	—	72.1
Prior year's revenue in hands of collection agents	(40.5)	—	(40.5)
Manitoba Forestry Resources Ltd. investment written off	51.3	—	51.3
Adjusted balance	1,494.7	977.1	517.6
Excess of expenditure over revenue for the year	428.9	434.7	(5.8)
Balance at end of year	1,923.6	1,411.8	511.8
Allowances for losses of government agencies:			
Balance at beginning of year	134.9	114.0	20.9
Changes for the year	(3.3)	20.9	(24.2)
Balance at end of year	131.6	134.9	(3.3)
Excess of liabilities over recorded assets, balance at end of year	$ 2,055.2	$ 1,546.7	$ 508.5

The total excess of liabilities over recorded assets of $2,055.2 million as at March 31, 1984 ($1,546.7 million as at March 31, 1983) is an accumulation of net expenditures for lasting tangible assets, lasting intangible benefits and losses which were funded by public debt to be serviced from future revenues.

The increase of $511.8 million in accumulation of the excess of expenditure over revenue and advances to and investments in government agencies written off represents: $428.9 million deficit for the year; a write off of investment of $51.3 million in Manitoba Forestry Resources Ltd.; an accumulation of school expenditure financing of $72.1 million; and, recording as revenue of $40.5 million taxes in the hands of collection agents at year end.

The write-off of investment of $51.3 million noted above was authorized by an order-in-council and pertained to capital losses of the Manitoba Forestry Resources Ltd. sustained during construction of the plants. This amount was provided for in the allowance referred to below.

The two other above noted adjustments apply to the implementation of recommendations which I have made previously. The charge of $72.1 million to prior years' deficits represents the unpaid balance of school division expenditure as at the end of the preceding fiscal year and the credit of $40.5 million to prior years' deficits represents the tax collections on hand with the agents as at the end of the preceding fiscal year. Similar expenditure and revenue as at the fiscal year ended March 31, 1984 have been included in that fiscal year's operations and, therefore, the accounting for them is now in a current position.

The particulars of the allowance for losses of government agencies are as follows (*in millions of dollars*):

OPERATING FUND ASSETS AND LIABILITIES

	March 31	
	1984	1983
Manitoba Forestry Resources Ltd.	$ 24.8	$ 15.2
Manitoba Development Corporation (applicable to losses of Flyer Industries Ltd. and A. E. McKenzie Co. Ltd.)	13.8	3.0
Manitoba Beef Stabilization Fund	4.6	3.5
Manitoba Hog Income Stabilization Plan	4.5	—
Manitoba Mineral Resources Ltd.	1.0	—
Manitoba Data Services	(.4)	(.7)
Manitoba Water Services Board	(.3)	(.1)
	48.0	20.9
Manitoba Forestry Resources Ltd. investment written off, allowance previously provided for	(51.3)	—
Changes for the year	$ (3.3)	$ 20.9

Direct Public Debt

A summary of direct public debt and other data pertaining thereto is as follows (*in millions of dollars*):

Direct public debt, net of sinking funds:

	March 31		
	1984	1983	Increase
Bonds, debentures and other securities	$ 4,966.3	$ 4,005.1	$ 961.2
Less, sinking funds	515.5	412.2	103.3
	4,450.8	3,592.9	857.9
Less, debentures issued under Grant Assistance Agreements, see particulars below	29.5	29.5	—
	$ 4,421.3	$ 3,563.4	$ 857.9

Debentures of $29.5 million were issued in accordance with agreements between the Province and the Credit Union Stabilization Fund for $25.0 million, and between the Province and Les Fonds de Sécurité des Caisses Populaires for $4.5 million. The debentures are being held by the Province to be cancelled at maturity July 7, 1987. The purpose of these debentures is to provide annual grants to the aforementioned entities equal to the annual interest of 14 7/8 percent stated for the debentures. The annual grants are charged to an appropriation voted for this purpose in the Department of Co-operative Development.

OPERATING FUND ASSETS AND LIABILITIES

The direct public debt is repayable in the following currencies (*in millions of dollars*):

Type of Currency	March 31 1984	1983	Increase (Decrease)
Canadian Dollars	$ 2,699.4	$ 2,053.0	$ 646.4
Foreign debt stated at exchange rates at the date the debt was incurred:			
United States Dollars	1,212.0	1,141.2	70.8
Swiss Francs	460.9	518.4	(57.5)
Japanese Yen	386.2	184.1	202.1
Deutsche Marks	167.9	67.6	100.3
European Units of Account	39.9	40.8	(.9)
	2,266.9	1,952.1	314.8
	$ 4,966.3	$ 4,005.1	$ 961.2
Foreign debt calculated at exchange rates at each year end	$ 2,465.9	$ 2,144.8	$ 321.1

Foreign debt due within the next three fiscal years, comparing book value with value at exchange rates at March 31, 1984 (*in millions of dollars*):

	March 31 1985		1986		1987	
Type of Currency	Book Value	Rated Value	Book Value	Rated Value	Book Value	Rated Value
Swiss Francs	$ 6.3	$ 9.5	$ 6.3	$ 9.5	$ 6.3	$ 9.5
United States Dollars	22.1	29.4	3.1	3.8	16.0	17.9
European Units of Account	1.1	2.4	35.5	36.9	1.1	2.4
Japanese Yen	11.3	15.3	11.3	15.2	33.5	49.3
Deutsche Marks	67.6	73.8	—	—	—	—
	$108.4	$130.4	$ 56.2	$ 65.4	$ 56.9	$ 79.1

Guaranteed Public Debt

The summary of guaranteed public debt and other data pertaining thereto is as follows (*in millions of dollars*):

Guaranteed public debt, net of sinking funds:

	March 31 1984	1983	Increase (Decrease)
Securities guaranteed	$ 1,643.7	$ 1,887.1	$ (243.4)
Less, sinking funds	241.1	223.4	17.7
	$ 1,402.6	$ 1,663.7	$(261.1)

OPERATING FUND ASSETS AND LIABILITIES

The decrease in guaranteed public debt of $243.4 million is accounted for as follows (*in millions of dollars*):

Transfer of previously guaranteed debt of The Manitoba School Capital Financing Authority to direct debt of the Province upon abolishment of the Authority, effective April 1, 1983 as explained in the following paragraph	$215.2
Refinanced by an increase in the direct debt of the Province:	
Manitoba Telephone System	14.7
Repaid from Sinking Funds and/or by cash:	
Manitoba Telephone System	4.8
Manitoba Hydro Electric Board	4.7
University of Manitoba	3.7
Other	.3
	13.5
Net decrease	$243.4

Legislation was passed to repeal The School Capital Financing Authority Act, effective April 1, 1983. This legislation provided that the Government assume the assets and liabilities of The Manitoba School Capital Financing Authority. The debt of the Authority which was part of the guaranteed debt of the Province was legislated to be general purpose debt of the Province for the purposes of The Financial Administration Act. Therefore, the debt of the Authority, being debentures payable to the Receiver General for Canada in the amount of $215.2 million was transferred to the direct debt of the Province, as at April 1, 1983. The assets consisting of debentures of School Divisions and Districts of $212.3 million as at April 1, 1983 were recorded as an offset to the aforementioned debt. The difference of $2.9 million representing net cash of the Authority was taken into the sinking fund of the Province.

The guaranteed debt is repayable in the following currencies (*in millions of dollars*):

	March 31		Increase
	1984	1983	(Decrease)
Type of Currency			
Canadian Dollars	$ 640.5	$ 879.2	$(238.7)
Foreign debt stated at exchange rates at the date the debt was incurred:			
United States Dollars	930.9	930.9	—
Swiss Francs	56.1	56.1	—
Deutsche Marks	13.8	16.9	(3.1)
Pounds Sterling	2.4	4.0	(1.6)
	1,003.2	1,007.9	(4.7)
	$ 1,643.7	$ 1,887.1	$(243.4)
Foreign debt calculated at exchange rates at each year end	$ 1,301.2	$ 1,268.8	$ 32.4

OPERATING FUND ASSETS AND LIABILITIES

Guaranteed foreign debt due within the next three fiscalyears, comparing book value with value at exchange rates at March 31, 1984 (*in millions of dollars*):

	March 31					
	1985		1986		1987	
	Book Value	Rated Value	Book Value	Rated Value	Book Value	Rated Value
Type of Currency						
Deutsche Marks	$ 3.1	$ 4.9	$ 3.1	$ 4.9	$ 3.1	$ 4.9
Pounds Sterling	1.6	1.4	.8	.7	—	—
United States Dollars	—	—	158.4	195.3	—	—
	$ 4.7	$ 6.3	$162.3	$200.9	$ 3.1	$4.9

Included in the guaranteed debt are amounts mostly serviced from the Consolidated Fund which are essentially the same as direct debt. These amounts consist of the following (*in millions of dollars*):

	March 31		
	1984	1983	(Decrease)
Manitoba School Capital Financing Authority	$ —	$ 215.2	$(215.2)
University of Manitoba	17.5	21.2	(3.7)
Various hospitals and other institutions	1.5	1.7	(.2)
	$ 19.0	$ 238.1	$(219.1)

Combined Direct and Guaranteed Public Debt

Combined direct and guaranteed public debt, net of sinking funds and debentures issued under financial assistance agreements, is as follows (*in millions of dollars*):

	March 31		Increase
	1984	1983	(Decrease)
Direct	$ 4,966.3	$ 4,005.1	$ 961.2
Guaranteed	1,643.7	1,887.1	(243.4)
	6,610.0	5,892.2	717.8
Less:			
Sinking funds:			
Direct	515.5	412.2	103.3
Guaranteed	241.1	223.4	17.7
Debentures issued under Financial Assistance Agreements(see particulars under Direct Public Debt)	29.5	29.5	—
	786.1	665.1	121.0
	$ 5,823.9	$ 5,227.1	$ 596.8

OPERATING FUND ASSETS AND LIABILITIES

The combined direct and guaranteed debt, net of sinking funds and debentures issued under financial assistance agreements, by sources of servicing (*in millions of dollars*):

Serviced from	March 31 1984	March 31 1983	Increase (Decrease)
Consolidated Fund:			
Fully re:			
General purposes	$ 2,392.3	$ 1,748.2	$ 644.1
Mainly re:			
Schools	—	215.2	(215.2)
Jobs Fund	55.2	—	55.2
Manitoba Forestry Resources Ltd.	11.2	—	11.2
Manitoba Beef Commission	10.0	—	10.0
Other	19.1	14.5	4.6
	95.5	229.7	(134.2)
Partially re:			
Manitoba Agricultural Credit Corporation	160.1	99.8	60.3
Manitoba Housing and Renewal Corporation	105.0	55.8	49.2
Manitoba Data Services	9.2	10.4	(1.2)
	274.3	166.0	108.3
	2,762.1	2,143.9	618.2
Manitoba Hydro funds	2,527.6	2,539.9	(12.3)
Manitoba Telephone System funds	504.9	511.6	(6.7)
Other funds	29.3	31.7	(2.4)
	$ 5,823.9	$ 5,227.1	$ 596.8

Sinking Funds

A summary of sinking funds and other data pertaining thereto is as follows (*in millions of dollars*):

Sinking funds applicable to:

	March 31 1984	March 31 1983	Increase
Direct public debt	$ 515.5	$ 412.2	$ 103.3
Guaranteed public debt	241.1	223.4	17.7
Agencies' non-guaranteed debt	4.1	3.5	.6
	$ 760.7	$ 639.1	$ 121.6

Sinking funds were invested as follows:

	March 31 1984	1983	Increase (Decrease)
Internal securities:			
Province of Manitoba	$190.0	$ 79.9	$110.1
Manitoba Hydro-Electric Board	241.7	232.6	9.1
Manitoba Telephone System	50.6	59.0	(8.4)
University of Manitoba	7.7	8.2	(.5)
	490.0	379.7	110.3
Other securities	114.3	26.9	87.4
Short-term investments	156.4	232.5	(76.1)
	$ 760.7	$ 639.1	$121.6

The sinking funds are maintained in accordance with legal requirements. They are basically being maintained by way of borrowing to provide funds for clearing the market of Manitoba securities, thereby placing the Province in a stronger marketing position. Manitoba securities are being purchased before maturity by the Department of Finance at prices approved by the Deputy Minister of Finance. The short-term investments mainly consist of sinking funds being funded by way of working capital offsets with the Province's regular rates of interest for working capital being applied as earnings for these investments.

Commitments and Contingent Liabilities

The particulars of the more significant commitments and contingent liabilities are as follows:

Commitments

— Indebtedness to the Canada Mortgage and Housing Corporation (C.M.H.C.) by the Manitoba Housing and Renewal Corporation (M.H.R.C.) — $236.7 million as at March 31, 1984 ($239.4 million as at March 31, 1983).

M.H.R.C. enters into long term financing agreements with C.M.H.C. for public housing projects. The capital funding is on the basis of 10% by the Province and 90% by C.M.H.C. Interest on land held for future projects is added to land costs. The annual operating costs, including the debt servicing costs, less rental recoveries on the housing operations is shared equally between Canada and Manitoba. Manitoba's share of the public housing program subsidy related to these housing operations amounted to $15.2 million for the year ended March 31, 1984 ($15.4 million for March 31, 1983).

— In accordance with legislation the Province is required to contribute on a matching basis one half of the pensions paid by the Civil Service Superannuation Fund, except for the agencies' portion, and by the Teachers' Retirement Allowances Fund. There are also provisions for adjustment payments. The matching and adjustment payments for the two fiscal years were as follows (*in millions of dollars*):

	March 31, 1984	1983	Increase
Civil Service Superannuation Fund	$ 8.0	$ 6.5	$ 1.5
Teachers' Retirement Allowances Fund	15.5	14.1	1.4
	$ 23.5	$ 20.6	$ 2.9
The foregoing payments as a percentage of total salaries are as follows:	%	%	%
Civil Service Superannuation Fund	2.30	2.00	.30
Teachers' Retirement Allowances Fund	3.25	3.25	—

In accordance with a formula supplied by the actuary, the actuarial liability of the Province for the Civil Service Superannuation Fund has been established to be $213.7 million as at December 31,

1983 ($185.1 million as at December 31, 1982). There has been no actuarial liability of the Province established for the Teachers' Retirement Allowances Fund, but it can be logically concluded that it would approximate the total of the employees' fund which amounted to $315.3 million as at December 31, 1983 ($271.6 million as at December 31, 1982).

To provide an estimate of the annual cash requirement, the actuary prepared a cash projection for the Civil Service Superannuation Fund for 25 years, commencing with the year 1978 and concluding with the year 2002. Based on a constant membership, the projection indicated the annual employer's pension payments as a percentage of salaries to be 1.5 percent in 1978 and progressively increase to 7.2 percent in 2002. Although the actuarial projections vary somewhat from the actual experience, but after taking into account the variable factors, the actual experience in growth appears to reasonably parallel the actuarial projections. The Teachers' Retirement Allowances Fund's percentage of pension payments to total salaries is higher than that of the Civil Service Superannuation Fund because the former plan is older and more mature.

Amendments to the Pension Benefit Act during 1983, providing improvements to pensions, substantially increased the pension liabilities. The actuary established that the cost to implement the improvements for the Civil Service Superannuation Fund, based on a position at December 31, 1982, amounted to $45.2 million. An estimate of the cost for the Teachers' Retirement Allowance Fund has not been established as yet.

In view of the aforementioned changes, consideration should be given to updating the actuarial projections.

Indebtedness for financing of hospitals and personal care homes:

Hospitals and personal care homes have obtained financing for capital construction by issuing debentures, or arranging for mortgages or long term bank loans. The Hospital Capital Financing Authority, which was established in 1972, approves the issue of all securities to finance these capital expenditures and assists in obtaining an orderly market for the sale of the securities. The Manitoba Health Services Commission has arranged with hospitals and personal care homes to fund the approved debt as long as the facilities are operated under The Health Services Insurance Act (Manitoba). Funds for servicing the approved debt incurred for the construction and acquisition of facilities for the provision of insured services are provided from an appropriation of the Consolidated Fund and included in the expenditure of the Manitoba Health Services Commission.

As at March 31, 1984 the approved outstanding net capital debt of hospitals and personal care homes was $227,472,000 in Canadian dollars and $11,950,000 in United States dollars. This includes $14,854,000 National Housing Act mortgages which are subsidized by the Canada Mortgage and Housing Corporation. The comparative figures for the preceding year are $221,607,000, $12,675,000 and $14,012,000 respectively.

In addition to the above net outstanding debt, lines of credit up to $99,435,000 have been approved to finance projects currently in process. On completion of these projects, the borrowings will be converted to long-term debt.

Contingent liabilities in addition to guaranteed debt

Flyer Industries Limited

This Corporation has been required to provide performance bonds to guarantee the completion of contracts. The Province has undertaken to indemnify the bonding companies to the extent of $53 million as at March 31, 1984. This indemnity has been provided for by way of an encumbrance of The Manitoba Development Corporation's borrowing authority under Part II of The Development Corporation Act of $40 million and a provision of $13 million under section 54.1 of The Financial Administration Act.

Manitoba Hydro-Electric Board

Subject to the approval of the Lieutenant Governor in Council the Board may borrow or raise money for temporary purposes with the present limit being $150 million. There were $133.1 million of Manitoba Hydro-Electric Board promissory notes outstanding and guaranteed by the Province as at March 31, 1984.

OPERATING FUND ASSETS AND LIABILITIES

Commitments for future services

The Financial Administration Act permits commitments to be made only to the extent authorized by the Legislature. The Appropriation Act, 1983 granted authority to the Government to commit expenditures not to exceed $200 million. The commitments for significant contracts and lease rentals amounted to approximately $127.1 million as at March 31, 1984.

Borrowing authority

The following is a summary of the borrowing authority (*in millions of dollars*):

	March 31		
	1984	**1983**	**Increase**
Appropriate Acts — to cover government deficits and sinking fund provisions	$ 393.5	$ 87.6	$ 305.9
Loan Acts — self-sustaining programs	414.2	326.4	87.8
Total unabated authority	807.7	414.0	393.7
Encumbered authority — Manitoba Development Corporation re Flyer Industries Limited	50.0	40.0	10.0
	$ 757.7	$ 374.0	$ 383.7

More detailed information concerning the borrowing authority is included in the Public Accounts.

TRUST FUND ASSETS AND LIABILITIES

Administered Trust Funds

Administered trust funds consist of the following (*in millions of dollars*):

	March 31		Increase
	1984	1983	(Decrease)
Assets			
Amounts due from Operating Fund	$ 469.7	$ 497.5	$ (27.8)
Cash and investments	476.3	386.3	90.0
	$ 946.0	$ 883.8	$ 62.2
Liabilities			
Sinking funds for securities issued by government agencies	$ 245.2	$ 226.9	$ 18.3
Funds deposited with the Minister of Finance for investment	602.8	587.4	15.4
Banking facility accounts	13.9	12.2	1.7
Operating trusts	7.1	6.0	1.1
Reserves and other miscellaneous accounts	77.0	51.3	25.7
	$ 946.0	$ 883.8	$ 62.2

The trust transactions for each account are summarized in the Public Accounts in a statement which shows for each account the balance as at March 31, 1983, the receipts, payments and transfers for the year ended March 31, 1984 and the balance as at March 31, 1984.

The increase in the above noted liabilities arise from normal growth and fluctuations, except for the Reserves and Other Miscellaneous accounts increase of $25.7 million. This increase includes: $10.7 million for the Manitoba Jobs Fund pertaining to transfers from various appropriations; $4.9 million for Manitoba Oil and Gas Corporation on account of investments in shares of the Corporation (the Corporation was established by an Act of the Legislature effective July 22, 1983, commenced operations in early 1984 and its first fiscal year end will be December 31, 1984); and, $4.0 million for Manitoba Hog Producers' Marketing Board on account of advances for payments to producers under the Manitoba Hog Income Stabilization Plan.

TRUST FUND ASSETS AND LIABILITIES

Custodial Trust Funds

Custodial trust funds consist of the following (*in millions of dollars*):

	March 31		Increase
	1984	1983	(Decrease)
Assets			
Funds in custody of the Minister of Finance and other departments	$ 416.1	$ 615.2	$(199.1)
Liabilities			
Civil Service Superannuation Fund	$ 226.3	$ 220.0	$ 6.3
Manitoba School Capital Financing Authority	—	212.3	(212.3)
Workers Compensation Board	122.8	123.4	(.6)
The Public Trustee	55.8	43.5	12.3
Manitoba Hospital Capital Financing Authority	4.6	4.9	(.3)
Other	6.6	11.1	(4.5)
	$ 416.1	$ 615.2	$(199.1)

The increases in the above noted liabilities mainly arise from normal growth fluctuations and the increase in the number of estates being administered by the Public Trustee. The decreases mainly arise from the discontinuance of the Manitoba School Capital Financing Authority in 1984 and the transfer of its liability to the direct debt of the Province as explained under the Guaranteed Public Debt section of this report.

REVENUE AND EXPENDITURE

The accounting policies with regard to the presentation of revenue and expenditure for the year ended March 31, 1984 are stated in the Public Accounts and are produced in Exhibit 12 of this report.

A summary of revenue and expenditure is included in the Public Accounts and is reproduced in Exhibit 9 of this report. The statement compares the actual revenue and expenditure for the year ended March 31, 1984 with the Estimates for that year and also with the actual amounts for the preceding year.

The Department of Finance provides explanations in the Public Accounts for significant revenue variances, as compared with the Estimates and with the previous year; variance explanations for expenditure are only provided as compared with those of the previous year. A comparative statement of departmental expenditure by object code with variance explanations is also provided in Public Accounts. We have reviewed these variance explanations and found them to be appropriate.

In my report last year, under the heading of Manitoba Forestry Resources Ltd., I recommended that the losses of the Corporation be subsidized from funds voted in an Appropriation and not from advances for which an allowance was being provided. No action was taken on this recommendation. The aforementioned condition also applies to other Crown agencies with losses being funded by advances for which an allowance was being provided. I again recommend that losses be funded from funds voted in the Appropriations so that the funding of the losses would appropriately compete up-front with the priorities of the funding of other programs. As the next best choice the losses of Crown agencies for the current year should be disclosed in the statement of Summary of Revenue and Expenditure of the current year. If this was done the deficit position for the fiscal year ended March 31, 1984, with comparative position for the preceding year, would be as follows (*in millions of dollars*):

	March 31	
	1984	1983
Deficit, before allowance	$ 428.9	$ 434.6
Allowance for losses realized by Crown Corporations	48.0	20.9
Deficit, including the allowance	$ 476.9	$ 455.5

The particulars of the above-noted allowance are shown under the Excess of Liabilities over Recorded Assets section in this report.

The allowances for losses realized by Crown corporations since the major revision of accounting policies, commencing with the fiscal year ended March 31, 1979 were: 1979 — $8.3 million; 1980 — $7.1 million; 1981 — $(4.3 million); 1982 — $(6.3) million; and 1983 and 1984 as indicated above.

There was a change in the presentation of information in the statement of "Summary of Revenue and Expenditure" from the preceding years. Instead of the final line being "Excess of Expenditure Over Revenue," this year it is being shown as a subtotal. The total expenditures related to capital assets is deducted from the subtotal and the final line shown this year is "Net Operating Deficit." Since the expenditure in arriving at the net amount does not taken into account such major operating costs as either the depreciation of capital assets or a sinking fund provision for the repayment of debt, it is not a realistic representation of the net deficit on operations. Therefore, I am not in a position to agree with the fairness of this presentation. The total expenditures related to capital assets is useful information but it should be shown in the statement as a major classification of expenditure only. I recommend that appropriate changes be made to this statement in the future to attend to the aforementioned difficulties.

The Department of Finance has continued to pay interest from its Appropriation to the Manitoba Development Corporation on the Corporation's excess funds on deposit. These excess funds resulted from equity financing by the Province for which the Province incurs a financing expenditure in its Appropriation. The interest paid for the year ended March 31, 1984 amounted to $1.6 million ($1.8 million March 31, 1983) and the funds on deposit amounted to $17.3 million as at March 31, 1984 ($15.8 million March 31, 1983). I indicated last year that the Minister of Finance had requested a review of the duplication of expenditure from the Province's Appropriation. There was no action taken to March 31, 1984. However, since March 31, 1984 these excess funds have been used to finance Flyer Industries Ltd. deficits. Payments amounting to $6.8

million have been made to Flyer Industries Ltd. by September 30, 1984 and a further substantial amount has been committed. As a result, most of the funds on deposit as at March 31, 1984 have now been either paid out or committed.

The Manitoba Development Corporation continued to subsidize expenditure of the Communities Economic Development Fund. The subsidy for the year ended March 31, 1984 amounted to $.8 million ($1.0 million March 31, 1983). Normally these subsidies should be provided from the Province's appropriation.

SPECIAL WARRANTS

A summary of the special warrants issued by departments on a comparative basis for the 1984 and 1983 fiscal years is included in Exhibit 6 of this report. The total special warrants issued for the year ended March 31, 1984 amounted to $104.3 million. This amount includes a warrant for $67 million to authorize an acceleration of cash-flow to school divisions for a more effective and economical funding of school expenditures, a matter which I have recommended for several years and is commented on in more detail in another section of this report. The total special warrants issued for the year ended March 31, 1983 amounted to $44 million.

Special warrants are issued under the authority of section 42(1) of The Financial Administration Act to approve expenditure not foreseen or provided for, or insufficiently provided for, and is urgently and immediately required for the public good. We review the documents supporting requests for special warrants to see that they are in compliance with legislation.

The special warrants issued during the fiscal year ended March 31, 1984, exclusive of the school financing special warrant for $67 million referred to in the first paragraph, amounted to $37.3 million. The larger of these special warrants consisted of:

- the Department of Finance, to cover under-provided for tax credit payments, due to the recession, $7 million.
- the Department of Natural Resources, to augment fire suppression activities, $5.9 million.
- the Department of Community Services and Corrections, to cover under-provided for social allowance expenditure because of adverse economic conditions, $5.3 million.
- the Department of Environment and Workplace Safety and Health, to cover a one-time subsidy grant of $4 million to the Workers' Compensation Board.

The total actual expenditure of $3,226.1 million for the year ended March 31, 1984 was less by $55.1 million than the total approved by legislation under the Main Supply and Statutory Authority, exclusive of the amount approved by special warrants.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

General Comments

The responsibility for the Government's central management system has been mainly assigned to the Treasury Board, the Department of Finance, the Department of Industry, Trade and Technology and the Civil Service Commission. The Department of Industry, Trade and Technology only became involved in the past year when the responsibility for information management pertaining to electronic data processing and other information processing technology was transferred to the Department from the Department of Finance. Over the past number of years the Government's management system has been defined and prescribed to a point that, as noted in my report last year, the system has all the necessary elements for effective management.

In my last year's report I stated that even though the basic prescription of the Government's central management system is now reasonably complete, more refinement in its direction is still required and the full implementation of it by departments has a long way to go as yet. I urged that improvements be proceeded with as expeditiously as possible because substantial savings could still be realized through a more effective management and accountability of public funds.

Further progress has been made during the year under review. We update the progress which has been made under the headings of Department of Finance, Department of Industry, Trade and Technology and the Civil Service Commission in this section of the report and comment on matters requiring attention which are the direct responsibilities of the aforementioned two Departments and the Commission. Concerning line departments' implementation of responsibilities in compliance with the prescribed requirements, we have carried out reviews of four areas pertaining to the management system in all line departments this year and comment on our findings arising from our reviews in the section of this report headed "Government-wide Reviews." The areas reviewed were planning, expenditure estimates, annual reports and internal auditing.

Department of Finance

Last year comments were made on a number of functions of the management system. The comments mostly pertained to reporting documents. The following observations update the positions from those reported last year.

Planning

For several years now the Government has been setting upper limits on resource allocation for departments. The process requires the departments to plan realistically and make hard choices among options available to them in order to maximize the benefits from the use of their available resources. Last year the Minister of Finance expanded this process beyond departments and met with government funded organizations and other interested parties. The Minister of Finance is continuing with this process. This broadening of communications is an important contribution for more effective management through a better understanding of the rationalization behind the allocation of resources. Commendable progress has been and is being made in improvements for prudent financial management of public resources. Further significant progress can be made in this area by formalizing the aforementioned process of communication through the legislative system. A long-range fiscal plan being made available to the Legislature would serve as an effective base for the annual review of the budget. It would also assist the private and other sectors of the economy to co-ordinate their plans with the Government's objectives to the benefit of the economy as a whole.

As indicated in my report last year, planning requirements have been prescribed for departments and officials from the Department of Finance were working with the departments to assist them with implementation. We have reviewed the departments' planning processes and comment on the results of our reviews in the section of this report headed "Government-wide Reviews — Planning."

Annual Budget

The annual budget presented to the Legislature includes the estimates of revenue, expenditure and the deficit for the year. This deficit does not correspond to a deficit established on a commercial accounting basis. It represents the excess of expenditure over revenue being funded by contractual indebtedness regardless whether or not the expenditure is for goods and services of a lasting value. The deficit is carried forward on an accumulating basis to a statement which primarily discloses the total contractual indebtedness assumed by future generations. It is an important accounting practice which is followed by many countries as a vital part of national and international accountability.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

There are also substantial statutory obligations, such as pension and welfare obligations, which are being passed on to future generations but these are generally not included in the aforementioned accounting because they are not of the same rank as the contractual indebtedness.

In my last year's report, I commented on another dimension of accountability which dealt with the assessment of the Province's economic strength and its manageability of the size of the public debt. It is an area which is assuming more importance and concern as the public debt increases. Last year I recommended that consideration be given to establishing a formal economic financial management system and that the pertinent data be included in the budget to assure the public that continuing deficit financing does not exceed the limits of manageability. A report prepared for the Government in 1983 provided an interesting outline for such a system. The credit rating agencies maintain similar systems for an after-the-fact rating of credit. I again recommend that consideration be given to establishing a formal system, drawing on the aforementioned and other sources, so that there would be an "up-front" evaluation of the financial position and economic strength of the Province for informed decision-making and accountability purposes. Confidence would be enhanced by providing reasonably documented systematic assurances that decisions which are being taken are not extending the Province beyond manageable limits.

Legislative Expenditure Estimates

The Legislative Expenditure Estimates provide a framework for both legislative approval of spending authority and administrative accountability for program delivery.

The basis of structuring approval of spending authority in the Estimates has historically been: the department responsible for delivery; the program identifying the purpose of spending; and, the nature of the spending (ie. salaries, grants, etc.).

There has been a change in the basis of approval of expenditures in the Estimates. Certain job creating expenditures were approved in a separate appropriation designated "Jobs Fund" distinct from the departments responsible for delivery and without program particulars. The government has explained that this was done in response to the need to coordinate government programming efforts to address the unemployment problems of the Province.

We have reviewed the implications of using this basis of approval. We feel that administrative control has been effectively maintained, including estimating job creation results, through the creation of the Jobs Fund Committee and supporting Secretariat. However, on the legislative control side, this cross-governmental approach could complicate understanding of program delivery and could impair the Legislature's ability to fix departmental responsibility for programs. I recommend that appropriate modifications be made to attend to the aforementioned concerns.

Departmental Expenditure Estimates

I have previously reported that the usefulness of these documents would be significantly increased if they included more refined particulars of quantified input and output data and were made available to the Legislature. In response to this recommendation, the government has been providing supplementary data for several smaller departments on a test basis. This information was first provided for the Department of Finance for the fiscal year ended March 31, 1983 . For 1983-84 three additional departments provided this information; Consumer and Corporate Affairs, Civil Service Commission and Fitness and Recreation and Sport. The supplementary data was again expanded for 1984-85 with the addition of the Departments of Co-operative Development and Municipal Affairs. The availability of this information has minimized the need for certain types of basic questions and explanations in the Committee of Supply. Each year at recent Public Accounts Committee meetings, this matter has been considered and there has been general agreement that this additional information should be provided for all departments. I am pleased that some progress has been shown in this area and recommend that all departments provide this supplementary data.

We conducted a review of departmental expenditure estimates in all departments and the results of our review are included in the section of this report headed "Government-wide Reviews — Departmental Expenditure Estimates."

Departmental Annual Reports

Last year I reported that a directive had been issued by the Premier's Office requiring the annual reports to be standardized with their primary purpose being to provide an accountability based on

the approved Estimates for the activities and programs of the departments for the year.

The departments did not clearly understand the accountability requirements of the directive. More precise instructions are now in the process of development.

We have reviewed the status of the departmental annual reports with the departments and the results of our review are included in the section of this report headed "Government-wide Reviews — Departmental Annual Reports."

Department of Finance Annual Finance Report

I have previously indicated that this summarized financial report could be improved by providing more of the information on a comparative basis with explanations for changes. I note that the last report has been prepared on much the same basis as those of the previous years. In any event, this report continues to be a useful document which strengthens the accountability of government to the public.

Quarterly Financial Report

Last year I reported that the Minister of Finance was considering making improvements to this report by showing the appropriation funds which were expected to lapse and improving the revenue and expenditure variance explanations. The last three quarterly financial reports included the appropriation funds which were expected to lapse. Comments on the major variances are included in the quarterly reports with further comments being made in the related quarterly news releases.

Monthly Financial Statements

Last year I reported that there were deficiencies in the monthly financial statements and that the Department of Finance was making refinements to them to improve their usefulness in the managing process. This matter has now been satisfactorily attended to.

Internal Audit Function

I reported last year that Treasury Board was providing effective direction and support to the internal audit functions in departments. I also reported that we were monitoring the progress that departments were making in either establishing or improving their internal audit functions. We conducted a review of the internal audit functions in the departments this year. Our findings resulting from our review are reported in the section of this report headed "Government-wide Reviews — Internal Audit Function."

Manuals, Directives and Guidelines

Government administrative policies and procedures are communicated to departments and agencies by way of manuals, directives and guidelines. This responsibility is mainly carried out by the Department of Finance and the Civil Service Commission.

In my last year's report we indicated that the Department of Finance and the Civil Service Commission were updating and revising their manuals, directives and guidelines in several areas. Satisfactory progress has been made in those areas and they are continuing to carry out revisions and updating as part of normal ongoing operations.

Over the years a considerable amount of information has been developed by the Department of Finance concerning the Government's management philosophy, principles and administrative system and much of this has been made available to administrators to meet specific requirements. It would assist the management development process in Government if this material was consolidated and made available in the form of a manual. This has been discussed with officials of the Department of Finance and we understand that work is underway to consolidate this information in a concise, organized manner for distribution.

As part of the overall management information system, costing systems are maintained at the departmental level. Some of these costing systems are legislatively prescribed and others are departmental requirements only. The systems which are legislatively prescribed and a number of those established by departments are maintained on a formal basis. For example, such systems are maintained by the Department of Highways and Transportation and the Department of Cultural Affairs and Historical Resources. The Department of Highways and Transportation costs its highways projects, mainly for the purposes of managerial control and accountability, and for comparison with outside contracting. As part of the costing system, materials are bulk purchased for an inventory

account and charged to specific jobs as required. Construction equipment acquisition costs and related operating expenditures are also maintained in an inventory account and charged to specific jobs on an equipment unit-costed, time usage basis. The Department of Cultural Affairs and Historical Resources through the Queen's Printer Branch bulk purchases stationery and related supplies for an inventory account and services the departments on a cost recovery basis, including certain of its related overhead and operating expenditures. In accordance with a change in the accounting policy several years ago, the payments for the aforementioned inventory purchases are being expensed through the main expenditure appropriations when made and the inventories are not being carried forward as assets in the main financial statements. This procedure is appropriate and consistent with the accountability objectives of the main financial statements. We audit the formal systems during the course of regular departmental audits. There are also costing systems maintained by departments which are less formal which we do not normally audit. However, at the request of the Minister of the Department of Community Services and Corrections, we carried out a special audit of costing information of the Department pertaining to the Headingley Correctional Institution. We found weaknesses in the costing information which was assembled on an informal basis. This matter is reported on in this report under the heading "Department of Community Services and Corrections." There should be a review made of current practices in this area to ascertain that they meet standards of a kind which provide effective and beneficial information for management without the burden of costly redtape. This matter was reviewed with the Comptroller who has agreed to establish an inventory of the present systems in use and carry out a review with the view to developing appropriate guidelines for departments. We will be giving this matter further attention during the course of our next audit.

Payroll System

Last year we indicated that an upgraded payroll system was to become operational during the period February - March 1984. There was some delay, The conversion to the upgraded system commenced in April 1984 and continued until it was completed with the entire July 1984 payroll being processed on the upgraded system. We have been monitoring the conversion process and will be carrying out a regular audit of the upgraded system at the central and departmental levels during the 1984-85 fiscal year.

Department of Industry, Trade and Technology

Information Management Division

In my report last year, we indicated that the Information Management Division (I.M.D.) of the Department of Finance was completing its organizing and staffing to carry out its mandate. We reported that even though the Division was not fully operational, there already had been benefits since its establishment. We also reported that one of the projects the Division had undertaken was the development of appropriate policy and procedures for a government-wide computer processing disaster recovery plan. We considered this to be a vital undertaking when so many of the government's systems affecting the public in Manitoba are dependent on computer processing.

Since my last year's report, the Division was transferred in November 1983 to the Department of Industry, Trade and Technology as part of a government reorganization process. Although the transfer was not intended to change the Division's primary role and responsibilities, the Division's resources began to be diverted away from certain of its original objectives to address new initiatives of the Department of Industry, Trade and Technology. Considerable staff resources have been used in planning for implementation of selected economic development initiatives related to information technology such as the Educational Technology Centre (Infotech) and the Telidon Pilot. This has resulted in considerably less staff resources being directed to developing and administering information management strategies and policies for government departments, agencies and crown corporations. Nevertheless, the Division's efforts with regard to support and training for office system studies, review of system proposals and consulting advice for technical suitability appear to be maintained at a satisfactory level.

We can see the benefit of using the Division's expertise in developing information technologies which could have an economic impact on the Province. We are, however, concerned about the lack of progress with what was originally the primary role of the Division, including the development of policy and procedures for a

government-wide computer processing disaster recovery plan.

We consider it important that a government-wide strategic plan and the policies and guidelines for information processing as approved by Treasury Board, be communicated to all departments and government agencies. As well, the specific central responsibility for monitoring departments' and government agencies' adherence to defined policies and procedures needs to be clearly in place to ensure controlled use of equipment, data and programs. Leaving these matters without sufficient attention may be possible in the short run, but a continuing prolonged deficiency of this kind could have serious consequences. We consider the fulfillment of the Division's original primary role of establishment of an information processing strategy, implementation of a planning framework, and development of government-wide policies and procedural guidelines as vital for effective management. Appropriate changes should be made to enable the Division's original responsibilities to be effectively discharged.

Civil Service Commission

Managerial Resources

In previous reports, I indicated that, with the approval of Treasury Board, the Commission was developing a comprehensive managerial resources management plan. The development and implementation of the plan was being carried out in two sections.

In my last year's report I indicated that the section of the plan dealing with managerial classification and compensation was not being proceeded with. I also indicated that issues in this area would have to be attended to if long term serious difficulties in the Province's administration were to be avoided. The two issues we raised were the existence of significant identified inequities in the compensation plan for managers and the managers generally being paid significantly less than comparable managers in other organizations funded by the Province. A committee consisting of five senior officials was recently established to review the job functions and positions of senior managers identified by departments for review, and to recommend changes where inequities exist. Other processes are taking place to make a similar review for the most senior managers. The processes are related to a move recently made by the government to reduce the differential between government managers and those in other organizations funded by the Province, by establishing a new rank of senior officer with a higher compensation. It is hoped that these processes will result in the utilization of this new rank of senior manager in the reduction of inequities which presently exist. Comments are being made on compensation of senior officers in Crown agencies under the heading "Review of Government Control Over Compensation by Crown Agencies" section of this report.

The other section of the plan is concerned with performance evaluations and managerial development.

With respect to the adoption of effective performance evaluation systems, progress has been slow. While the Commission had planned to issue the related policies and procedures by March, 1984, they still had not been released at the time of this report and no specific time table was in place. We continue to recommend that prompt action be taken to implement this useful management tool. The implementation of these systems, as part of a total management system, will significantly assist in the identification of potential candidates for promotion to management positions.

Individuals identified as having managerial potential through the performance evaluation systems and individuals already in management positions can benefit from further development of their management skills. The Commission continues to make effective progress in the development of managerial skills. The most recent program involves training managers to be seminar leaders for teaching management skills such as decision-making, planning and priorization, and problem solving. A senior auditor from my Office participated in this program and is now a certified program leader. This auditor and other certified program leaders from government conducted several training sessions in these skills for managers. Further sessions are planned for the 1984/85 fiscal year. In addition, the Commission is currently developing a program to enhance the diagnostic skills of government managers so that the more highly skilled managers can be utilized to assist other managers in resolving organizational and program delivery problems. These are very commendable undertakings for the enhancement of management skills with which we are pleased to be associated. The quality of the Province's administration is dependent on the effective function of highly skilled

and motivated people at all levels of the public service.

Personnel System

In last year's report, we indicated that a number of critical systems problems were negatively impacting on the utility of reports generated by the Personnel System. The problems mainly consist of inaccurate and invalid data in the Personnel System and the lack of an adequate corrective facility. While the Commission's plans at that time called for the resolution of these problems by March, 1985, there has been a further slippage with completion of the project deferred to 1985/86. The Commission has recently received permission from the Information Management Division of the Department of Industry, Trade and Technology to proceed with its planned project. If there are no further delays, the project should be fully implemented by March 31, 1986. We strongly urge that this undertaking be proceeded with as expeditiously as possible because the continuing existence of the critical systems problems has for years prevented the Personnel System from operating at a satisfactory level.

Conflict of Interest

In March 1984, Conflict of Interest Guidelines for government employees were approved by Cabinet as government policy. The administration of the policy was implemented and is continuing under the direction of Deputy Ministers. Employees are required to disclose to their Deputy Minister, or other designated manager, any situation or matter where they have a conflict of interest or the foreseeable potential for a conflict of interest.

In May 1984, I was asked to investigate an allegation of a potential conflict of interest concerning a senior officer in the Department of Industry, Trade and Technology. My investigation was carried out in accordance with criteria established in the Guidelines. I issued a report to the Government based on my investigation which was tabled in the Legislature.

Although my investigation did not disclose any actual conflict of interest, there was a concern with regard to a perceived conflict of interest. In order to reduce the possibility of similar situations arising in the future, I recommended in my report that the Guidelines be expanded to assist officials with their decisions concerning questionable involvements. Direction is required for such matters as to whether or not a civil servant operating a business qualifies for assistance grants and other dealings with government, and what is the position in these matters of a spouse of a civil servant operating a business.

The Staff Relations Division of the Civil Service Commission is reviewing the Guidelines and appropriate clarifications will be issued upon completion of the review. This review is taking into consideration the concerns expressed in my report and my Office is being consulted in the development of clarifications.

GOVERNMENT-WIDE REVIEWS

General Comments

In my last year's report I stated that prior to the management philosophy and process being documented by Treasury Board and other central authorities and communicated by way of guidelines and directives to departmental management as a reasonably working blueprint, we could only review the departmental management systems during the course of our departmental audits on the basis of departmental plans. However, now that the guidelines and directives have been provided it was not unreasonable to expect departmental management to be working toward compliance with prescribed standards as expeditiously as practical. I also indicated that we would be checking on departmental progress towards compliance. During the year under review we carried out reviews of four areas in all departments. The areas consisted of: the planning process; the expenditure estimates process; the development and content of the departmental annual reports; and, the internal auditing functions. We comment on the results of our reviews and make recommendations under the following headings: planning; departmental expenditure estimates; departmental annual reports; and, internal audit function.

Planning

Last year we reported that Treasury Board had developed and approved planning guidelines, and initiated a process to implement the guidelines in all departments. Planning on an informal basis has always been carried out, but, what is being introduced now is a formalized planning system as an essential feature of management and one of the key ingredients providing the government with the information and flexibility needed to deal with increasing financial pressures.

As indicated in my last year's report, after the guidelines were issued considerable education work had been carried on with departments. This work has also continued in the past year. Recently, as part of the 1985/86 estimates process, the departments were asked to submit reports providing:

- Role and mission statements for their programs;
- Program displays of current operations which include evaluation mechanisms; and,
- New initiative proposals and opportunities for trade offs for the fiscal years 1985/86, 1986/87 and 1987/88.

During the past year, we conducted a review of the implementation of the new planning guidelines. Specifically, we assessed departmental progress in developing an effective planning function. We found that all departments appreciated that a formal planning system was an essential element of effective management and were taking steps towards implementing a system in accordance with the guidelines. However, the progress made by each of the departments in the implementation of the guidelines varied widely. Undoubtedly, the quality of the aforementioned reports, when they are completed and submitted, will have a direct relationship to the progress made by each of the departments in the implementation of the guidelines. Assistance to the departments should be continued in accordance with their needs as indicated by the quality of their reports and other findings.

The operations of an effective planning system, which includes an effective long-range fiscal plan, is a highly complex undertaking. We agree with the careful and methodical approach which is being taken in the development of the system. Every precaution should be taken to ensure that the plan is not mainly a product of a mechanical administrative exercise. Only a plan produced on the basis of sound research and logical data, and not overburdened with extraneous information, could meet the needs of the legislative process and of a public review for a meaningful interaction.

Departmental Expenditure Estimates

We have reviewed in the past year the departmental expenditure estimates on a government-wide basis. As part of the annual estimates process each department is required to submit to the Department of Finance detailed expenditure estimates which support the estimates to be submitted to the Legislature for approval. The detailed expenditure estimates provide satisfactory input data, such as staff years, and explanations for changes between years. They also provide output data but there is still considerable room for improvement in this area. The actual expenditures are being compared with the estimates and variance explanations are provided. Therefore, although there is still substantial room for improvement, the system now does provide internally a satisfactory level of control and accountability.

For many years now I have been recommending that the aforementioned information be made available to the Legislature to assist it with its

work and to provide a more effective public accountability. As indicated in another section of this report six departments are already submitting to the Legislature supplementary information in support of their estimates and, hopefully, the others will also be providing this data reasonably soon. There is also a requirement now for the departments to provide an accountability of actual performance as compared with the estimates in their departmental annual reports, but as commented on in another section of this report this is not being done as yet. When these matters are attended to, there will also be a satisfactory level of accountability publicly.

As indicated in the planning section of this report, part of the 1985/86 estimates process includes a request for a submission of role and mission statements, program displays of current operations and new initiative proposals and opportunities for trade offs for three fiscal years — 1985/86, 1986/87 and 1987/88. This is a valuable exercise, which establishes a planning linkage with the annual estimates.

In summary it can be stated that:

- Internally, although there is still room for significant refinements and improvements, the management system including the internal controls is generally maintained at a satisfactory level.
- Legislatively and publicly, the outline and direction for a satisfactory system is in place but the full implementation of it has a long way to go. I again urge that all reasonable steps be taken towards full implementation as quickly as possible. In my view the benefits would be tremendous. Not only would it significantly enhance the legislative process and improve creditability with the public but it would add substantially to the discipline of the managerial process and bring about added operational economy, efficiency and effectiveness. The positive experience in this regard from the introduction of the quarterly public reporting system several years ago is, in my view, a practical demonstration of this kind of effect.

Departmental Annual Reports

We have reviewed in the past year the status of the departmental annual reports on a government-wide basis. We noted that sixteen out of twenty departments issued annual reports. Four departments did not issue annual reports and were not required to issue them. Of the sixteen departments issuing reports nine were on the Province's fiscal year end basis and seven on the calender year basis. Only six departments issued their reports on a timely basis.

We also checked on compliance with the directive issued by the Premier's Office requiring the annual reports to be standardized with their primary purpose being to provide an accountability based on the approved Estimates for the activities and programs of the departments for the year. We understood the accountability requirement to include a comparison of actual expenditure with the planned expenditure, as provided for in the Estimates, and appropriate variance explanations. We found that all the issuing departments, except three, complied with the format requirements. None of the departments complied with the accountability requirements. There was a difference of opinion as to the meaning of accountability requirements. As indicated in another section of this report, officials from the central system are now in the process of developing more precise requirements.

We noted that the departmental annual reports generally do provide substantial useful statistical data such as the size of the population being served and other data associated with the departments' operations. However, generally this data is not co-ordinated with the financial data. We noted in some instances that the statistical data trends were significantly at variance with the financial data trends, such as the size of the population being served was diminishing and the expenditure was increasing, and there were no clearly documented explanations for this.

As I indicated in my previous reports the aforementioned prescribed accountability requirement is one of the most essential elements of an effective accountability process. I again urge that steps be taken to comply with it as expeditiously as possible. The accountability process would also be assisted significantly if, as I have recommended for many years now, the Public Accounts Committee would review annually on a selective basis the departmental administrative operations with senior officials using the departmental annual reports as the basic documents for the reviews.

Internal Audit Function

We have carried out in the past year a review concerning the internal audit functions in all departments. Thirteen of the twenty departments now perform activities of a kind which can be classified as being part of an internal audit function and, seven departments do not have any such activities; they are administratively small depart-

ments. Seven of the thirteen departments with internal audit activities have formally established internal audit functions; the other six departments carry out internal audit activities in certain specific areas only.

We have reviewed the seven departments with internal audit functions to assess their progress in complying with Treasury Board's policy directive which states that:

> "Departments shall have an independent internal audit function that carries out a systematic review and appraisal of all departmental operations for purposes of advising management on internal management policies, practices and controls."

Although none of the seven departments have progressed to a point that it could be said that they are fully complying with the aforementioned directive, they are now adequately staffed and are actively proceeding towards compliance. A guideline on internal audit methodology is in its final draft stage and is to be issued shortly. The Department of Finance, with participation by the Civil Service Commission and my Office, conducted a training program for internal audit staff in July 1984. As mentioned previously, these departments are making a concerted effort to develop their internal audit functions to meet the stated objectives. Some of the departments are more advanced than others. Nevertheless, they are all making satisfactory progress.

With regard to the departments which do not now have formal internal audit functions, we appreciate that implementation of an internal audit capability is an evolutionary process. It is the responsibility of all departments to comply with the intent of the Treasury Board policy in a manner most appropriate to meet departmental needs. Nevertheless, this does not mean that the smaller departments' needs are such that formalized internal audit functions are required. We agree with the approach of proceeding carefully based on government-wide experience. The Department of Finance is available for guidance where difficulties are encountered.

REVIEW OF GOVERNMENT CONTROL OVER COMPENSATION BY CROWN AGENCIES

In my previous reports and in the section of this report headed Civil Service Commission — Managerial Resources I made reference to matters pertaining to managerial classification and compensation. As part of our broader audit scope we have carried out a comparison of staff compensation programs in the various Crown agencies. Since January, 1983 the Government has had procedures in place to have all proposed public sector collective bargaining settlements approved by Treasury Board before compensation offers could be made. This is an effective means of ensuring equity in compensation levels for staff remunerated from public funds. With regard to compensation to senior executives who are excluded from collective agreements, Ministers responsible for the various Crown agencies may be notified when compensation adjustments are made but there is no formal process similar to that for collective agreements. It seems that there should be a similar process in place to that of the collective agreements to ensure equity in compensation levels of senior executives. Our review of the compensation levels of senior executives disclosed significant variations which are being commented on in the following paragraph.

Our review indicated variations in compensation levels of senior executives of a kind for which the reasons were not readily apparent. In one instance the compensation level of the chief executive officer of a Crown agency is substantially higher than the next highest level of the other Crown agencies. During the course of our recent audit of the agency I reported this matter to the Minister responsible for the agency and was advised that this level of compensation was necessary in this instance because of extenuating circumstances. I recommend that a formal review process be established by the Government for reviewing and approving the compensation levels of senior executives to ensure that remuneration from public funds is equitable and in keeping with the overall Government policy.

DEPARTMENTS AND AGENCIES OPERATIONS

Department of Community Services and Corrections

In my previous year's report, I expressed a concern that management's control and monitoring responsibilities were not being carried out as effectively as expected. This concern had been expressed based on our audit observations over the last few years which were previously brought to the attention of the Minister and senior departmental officials. Several specific observations were also included in my last year's report.

We have previously recommended that the Department review its organizational structure and policies as to the role, delegated authority, responsibility and procedures with regard to the Department's management control functions. During our current year's audit we performed a follow-up review to determine what corrective action had been implemented by the Department in respect to our recommendations. The Department has taken the following actions to address the kinds of concerns previously reported by us:

- An internal audit unit has recently been formed to review and appraise all departmental operations for the purposes of advising management on internal management policies, practices and controls.
- A Research and Planning Branch was established in September 1983 to co-ordinate Departmental policy, program and related budgetary planning and implementation, in cooperation with operating Divisions.
- The process of delegation of internal signing authorities has now been formalized.

Collectively, these organizational and procedural changes have improved the level of management control and accountability within the Department. To this extent, these changes have lessened our concern reported last year regarding the program managers' abilities to meet the responsibilities of their operating requirements. The Department can now better evaluate directorate programs exhibiting potential risk. This can now be done through the coordinated effort of the support groups existing within the Department such as internal audit, research and planning and administrative services.

In response to Government direction, the Department has also made significant progress in its implementation of a formalized planning process that fully considers and documents key planning methodologies related to strategic, long-term planning with its direct benefits to annual budgetary considerations. It is anticipated that this organizational change, accompanied by improved reporting procedures, will significantly add to management monitoring and control capabilities and, therefore, accountability over departmental operations generally.

In addition to the organizational and procedural improvements mentioned above, there are further contemplated changes towards strengthening certain program areas that exhibit the deficiencies mentioned previously in this report. For example, the Child and Family Services Directorate is developing a Central Child Welfare Information System, which will offer a higher degree of managerial control and accountability. Further, it is our understanding that some restructuring, which includes the hiring of a senior administrator, is under consideration. Improvements have also been made in the Seven Oaks Youth Centre and in the Clients under Orders of Supervision operations which were commented on in my last year's report.

A Review Committee on Adult Corrections, established by the Government, issued its report in September 1983. The Committee also identified problems of the kind which we have been reporting on, associated with deficiencies in management and monitoring functions. At the request of the Minister we carried out a review of certain specific matters reported on by the Committee concerning the Headingley Correctional Institution. These matters pertained to the quality and degree of formalized, documented procedures followed by the Division, in respect to specific cost analysis determinations which assist management and the Government in the decision-making process and the effectiveness of the managerial control and monitoring procedures directed at minimizing wastage in resources. We found that the cost analysis determinations were being undertaken on an informal basis, resulting in limited documentation of information which was subject to varying interpretations. In respect to the control and monitoring procedures to minimize wastage, certain areas were noted where improvements could be achieved. The Corrections Division has studied the areas of concern by the Committee and by us and has made or is in the process of making changes to resolve these concerns.

The Department has taken steps to resolve the difficulties which were being experienced. As these steps become fully operational, administrative

irregularities should be minimized. We will be following up on the progress being made during the course of our next audit.

Department of Education

Financing of school divisions

For a number of years I expressed a concern about the method of financing school expenditures by the Province and the municipal corporations. The prescribed method of financing resulted in the school divisions incurring substantial financing charges when, in reality, the taxpayers were making payments on account of these expenditures to the Province and to the municipal corporations on a timely basis.

The Province has previously made a number of changes to its method of financing, to an extent that from April 1, 1981 the only delay in financing was for expenditures of the first three months of the year which were financed on April 1st. A further change is in the process of being approved so that effective January 1, 1985 up to 10 percent of the estimated support, depending on cash requirements, will be paid to school divisions each month of the year with the exception of July and August. When this change is approved and put into effect, the Province's financing will be on a current basis and will attend to my previous concern.

There is still a substantial delay in financing by the municipal corporations. In accordance with Regulation 12/81, 60 percent of the levy is required to be paid on or before September 15 and the remaining 40 percent on or before March 15 of the subsequent year. Discussions have taken place on this matter of financing but there appears to be a resistance to a change mainly on the basis that some of the tax collections are in arrears. This is hardly a valid reason when municipal corporations require taxes to be paid by due dates, ranging from June 30 to October 31, and, most of the taxes are paid by the due dates. In instances where taxes are not paid by the due dates, penalties are charged to cover the cost of financing. I again recommend that the Regulation be changed so that the timing of remittances to school divisions will be more in line with tax collections. If there is to be a subsidy provided to municipal corporations, it should be done in a more direct manner and not at the expense of education financing.

As a matter of information, the school divisions' working capital financing costs, mainly by way of bank loans, amounted to $2.7 million for 1983, a decrease by $2.2 million from the preceding year. This decrease is accounted for by a reduction in interest rates and an accelerated cash-flow.

Department of Health

Private medical practices of physicians employed as civil servants

During the course of audit we observed that a number of physicians who are civil servants also have private medical practices for which they receive fees for service from the Manitoba Health Services Commission. This matter has been brought to the attention of senior officials of the Department who are presently reviewing it. The officials have indicated that appropriate systems are being established for monitoring the performance of civil service duties in relation to the private practices.

Department of Highways and Transportation

Motor Vehicles Branch

Last year I reported that the Summary Convictions Act had been amended, introducing new procedures for handling parking violations which eliminated the necessity of court processing for most cases. These amendments enabled the City of Winnipeg to send overdue parking violations directly to the Registrar of Motor Vehicles for further processing in accordance with the provisions of Section 11(3) of The Summary Convictions Act. These new procedures were found to cause administrative problems to such an extent that the Summary Convictions Act was again amended. However, the present legislation, as amended, still does not provide an effective means of enforcing collection of parking fines by the City of Winnipeg.

The current accumulation of unpaid parking violations at the City of Winnipeg indicates that the situation has now deteriorated to the point where there essentially is no enforcement of compliance. Information compiled by the City of Winnipeg indicates that there were 86,497 parking tags issued between January 20, 1983 and May 15, 1984 which were in arrears and still unpaid as of June 26, 1984. The 86,497 unpaid parking tags applied to 36,323 violators; 3,755 violators were responsible for from 5 to in excess of 20 tags each, 10,237 from 2 to 4 each, and 22,331 one each. It is estimated that these outstanding tags represent approximately $1 million in uncollected revenue to the City of Winnipeg.

There have been a number of meetings held between officials of the City of Winnipeg, the Province of Manitoba and the Manitoba Public Insurance Corporation but the problem has not been resolved as yet. We understand that officials of the Motor Vehicles Branch are planning another meeting in October 1984 to discuss this matter further. This is a serious problem which should be receiving immediate special attention.

To a much smaller degree a similar problem exists with a number of other municipal corporations. The kind of resolution which will be arrived at for the City of Winnipeg will also attend to the problem of the other municipal corporations.

Brandon University

During the present year, concerns were raised regarding certain administrative practices of the University. These concerns were in the areas of the administration of trust funds, the budgeting and accounting for special projects and the procedures pertaining to the processing of employee expense accounts. Concern was also expressed as to whether the Board of Governors was receiving the kind of information it required in order to carry out its role effectively. I assigned a senior member of my staff to conduct a special review of these matters, and to expand the scope of our audit to include a review of the management information system in greater depth than that normally carried out during our regular audit.

Our review did not disclose any major deficiencies but we did note a number of improvements which could be made in certain aspects of administrative practices. We have made appropriate recommendations to the Board of Governors.

Channel Area Loggers Ltd.

In my last year's report I indicated that the Company was anticipating a loss for the year ending March 31, 1984 even though there was a significant improvement in prior operations to a point that a profit was realized for the first time for the fiscal year ended March 31, 1983, amounting to $38,976. This situation was not unusual, taking into account that the objectives of the Company are directed toward broader socio-economic issues, including the training and employment of residents in the remote Berens River area.

In my report last year I also indicated that the amount of the loss for the fiscal year ending March 31, 1984 could not be estimated because officials were still in the process of negotiating the selling price for the coming season. Subsequently, the Company had prepared a budget which indicated a loss of $55,000 for the year ended March 31, 1984 based on sales of 16,500 cords; actual sales were 4,700 cords. This significant variance in the volume of business resulted in a loss for the year ended March 31, 1984 of $149,000 which is mainly attributable to pulpwood sales being 11,800 cords or $761,000 under budget. The decrease in pulpwood sales was caused by difficulty in obtaining experienced cutters and delays in establishing winter roads for hauling operations. The delay in establishing winter roads resulted in 2,500 cords of wood being left as inventory rather than as sales of the Company during the year. The revenue from reduced wood sales was insufficient to cover the fixed expenses associated with the Company's operations.

The Company is continuing its broader socio-economic objectives and is anticipating a loss for the year ending March 31, 1985. However, the amount of the loss cannot be estimated as yet, since Company officials are still in the process of negotiating the selling price for the up-coming season.

Legal Aid Services Society of Manitoba

I previously reported that for several years the Legal Aid Services Society of Manitoba has had to delay payment of accounts at the year end because of the lack of funds initially voted in the appropriation or subsequently approved by special warrant. This situation continued for the fiscal year ended March 31, 1984. At the year end there were about $544 thousand of legal aid billings received but unpaid and about $87 thousand of unpaid operating expenses. On February 29, 1984 a special warrant was passed which authorized additional expenditures from the appropriation of $865 thousand. This additional authority was still not sufficient to cover the commitments of the fiscal year by the aforementioned amounts. It is again recommended that the necessary funds be provided in the Province's Appropriation in the appropriate fiscal year so that expenditures are not being deferred to the subsequent fiscal year. Such deferrals result in the understatement of expenditures for both the Society and the Province. I understand that measures are being taken to address these concerns in the 1984/85 fiscal year.

Manitoba Development Corporation - Subsidiary and Investment Under Part II of the Act

Flyer Industries Limited

In my last year's report to the Legislature I indicated that a review of Flyer Industries Limited operations disclosed serious difficulties. The Corporation had sustained a loss of $3.4 million for its fiscal year ended December 31, 1982 and I indicated that a similar loss was anticipated for the fiscal year ended December 31, 1983. At that time the extent of the seriousness of the difficulties was not fully anticipated. Therefore, at the conclusion of the fiscal year ended December 31, 1983 not only a loss on regular operations of $6.0 million was reported but also an unusual warranty provision dating back to 1978 of $6.3 was required, resulting in a total loss of $12.3 million.

In my last year's report I also indicated that the Board of Directors was taking action to stabilize the Corporation's operations. A new chief executive officer was appointed effective October 1, 1983. I stated at that time that the then recent actions were encouraging. The new management proceeded with a cost reduction program with a view to at least break-even on the current contracts. However, although certain costs have been reduced, the reduction has not been sufficient to overcome the operational and market conditions indicating that a very substantial loss will again be realized. A broad based consulting group has been employed to carry out a comprehensive review of the operations and to make recommendations for policy and operational decisions.

During the year several instances of concern were brought to my attention. We have investigated these instances and reported on the results of our investigations to the Minister and the Chairman of the Board. Our findings indicated deficiencies symptomatic of the kind of operational difficulties which were commented on previously. One of the instances consisted of an allegation that significant overcharges were made by a supplier. An extensive check by officials of the Corporation did in fact disclose that significant overcharges were made. As a result, senior management of the Corporation negotiated with the supplier a credit adjustment of one hundred thousand dollars. I submitted the particulars pertaining to this matter to the Attorney-General's Department for review and have been advised that the evidence was not of a kind which warranted further investigation.

A. E. McKenzie Co. Ltd. and Subsidiaries

In previous years I reported concerns with regard to the valuation of inventories and prepaid expenses and the possibility of excessive deferments of operating expenses. A study was made of the valuation policies in 1983 and new policies were established by the Board, with which I agree. As a result of the change in policies, there was a deficit adjustment as at October 31, 1981 to operations of prior years of $1,566 thousand and a restated increase in the loss of $726 thousand on operations for the fiscal year ended October 31, 1982.

In previous years I also pointed out that the budgets were generally over-optimistic. The budgeted profit for the fiscal year ended October 31, 1983 of $1.6 million was no exception when compared with an actual loss for the year of $1.3 million. A loss of $350 thousand was budgeted for the fiscal year ending October 31, 1984. At a meeting on May 8, 1984 of the Legislative Standing Committee on Economic Development the new President stated that special effort was being applied to achieve a break-even or better position. If this target is realized it would be a commendable achievement and reverse the previous budgeting trends.

Because of allegations of a conflict of interest against three officers last year, I was asked to carry out a special audit, the findings of which were reported on separately. Arising from the findings, the Corporation has initiated civil action for recovery of assets and a police investigation is in progress. We are continuing to provide assistance in these actions.

DEPARTMENTS AND AGENCIES OPERATIONS

Saunders Aircraft Corporation Limited — In Receivership

In my previous reports I indicated that Saunders Aircraft Corporation Limited was placed in receivership by the Manitoba Development Corporation (M.D.C.) on May 20, 1976, and I provided a summary of cash transactions and other pertinent data from that date. The following paragraphs provide an updating of these matters.

A summary of the receipts and disbursements of the Company during the period of receivership up to May 31, 1984 is as follows:

	May 20, 1976 to May 19, 1983 (reported last year)	May 20, 1983 to May 31, 1984 (subsequent transactions)	Total
Receipts:			
Funds provided mainly for payment of liabilities and for working capital by:			
Manitoba Development Corporation	$ 351,184	$ —	$ 351,184
Province of Manitoba	176,942	—	176,942
	528,126	—	528,126
Proceeds from sale of assets	1,819,177	—	1,819,177
Collection of accounts receivable outstanding May 20, 1976	1,043,773	48,599	1,092,372
Aircraft leasing and other income	198,487	—	198,487
Interest income on surplus funds, net	424,572	15,113	439,685
Total receipts	4,014,135	63,712	4,077,847
Disbursements:			
Funds transferred to the Province of Manitoba	1,391,567	—	1,391,567
Payment of liabilities outstanding May 20, 1976	557,519	—	557,519
Salaries, wages and benefits	360,501	—	360,501
Insurance premiums	533,436	—	533,436
Receivers' fees, legal and other professional costs	488,086	19,390	507,476
Other operating costs	494,900	428	495,328
Total disbursements	3,826,009	19,818	3,845,827
Excess of receipts over disbursements	$ 188,126	$ 43,894	232,020
Funds on hand May 20, 1976			26,173
Funds held by the receiver-manager May 31, 1984			$ 258,193

In May 1984, the receiver-manager provided M.D.C. with an estimate of the possible further realization from the receivership of $370,000. This estimate includes an expected realization of an outstanding account which is being contested through the courts in Ontario. However, in view of uncertainty and materiality considerations, the amount shown as receivable in the Public Accounts as at March 31, 1984 is $50,000 only, the same balance as last year.

Except for the litigation pertaining to the aforementioned account, no other matters remain unresolved requiring the expertise of a professional receiver-manager. When this litigation is completed, an application will be made to the court to discharge the receiver-manager. My Office will continue to carry out an ongoing monitoring of the finalization of the receivership.

The Pas Forestry Complex — Receiver

The Receiver's activities concerning The Pas Forestry Complex are continuing with several settlements still being pursued. A summary of the Receiver's accounts for the fiscal year ended September 30, 1983, with comparative figures for the previous year, is presented below as a matter of information:

	September 30	
	1983	**1982**
Receipts:		
Realized under settlements of actions brought by the Receiver, the Manitoba Development Corporation and the Province of Manitoba	$ 37,331	$ 150,347
Interest income	29,788	44,963
Total receipts	67,119	195,310
Disbursements:		
Funds transferred to the Province of Manitoba	—	134,515
Receiver's operating expenses	8,627	27,801
Total disbursements	8,627	162,316
Excess of receipts over disbursements	58,492	32,994
Funds on hand, beginning of year	283,081	250,087
Funds on hand, end of year	$ 341,573	$ 283,081
Cash in bank and term deposits	$ 115,849	$ 57,357
Funds on deposit with the Minister of Finance	225,724	225,724
	$ 341,573	$ 283,081

Manitoba Health Services Commission

Proprietary personal care homes

For several years we have reported that the majority of proprietary personal care homes were not submitting audited financial statements as required by a Manitoba regulation under the Health Services Insurance Act. Since our last report a revised regulation has been issued which requires that the proprietary personal care homes are to submit an audited statement covering certain prescribed financial and statistical data.

The proprietary personal care homes are complying with the requirements of the new regulation and most have submitted the required statements. As this is the first year for submission of these statements, the Commission has granted an extension for the date of submission to a number of homes because of special circumstances affecting these homes.

Accountability for payments to health care facilities

Last year we reported that the auditors of the health care facilities were issuing supplementary audit reports for the fiscal year ended March 31, 1983, similar to those of the municipal and school division auditors, in compliance with guidelines for broader audit reporting requirements. Since 1983 was the first year that these supplementary audit reports have been issued, the Commission made a comprehensive analysis and comparison of them to determine the types of matters being raised, the actions being taken to respond to these matters, and any specific areas where further clarification of the reporting guidelines would be beneficial to the facilities' auditors. The Commission is planning to meet with the auditors in the near future to review the kind of matters commonly noted in these reports and to provide an opportunity for communication and clarification of the reporting guidelines. A review of the supplementary audit reports by my Office indicates that these reports are providing valuable assistance in the improvement of controls and the overall accountability of the health care facilities.

The system of accountability for payments to health care facilities is made up of a number of processes to monitor that management controls in these facilities are operating effectively. The approach being taken to strengthen these controls consists of procedures which aid the facilities' management in the identification and self-correction of problems in their operations, and procedures which improve the monitoring of the facilities' operations by the Commission. The supplementary audit reports are a significant improvement in meeting these goals. The overall accountability systems can be further strenghtened by implementing internal audit functions in the teaching hospitals, where these functions can be a vital aid to management because of the size of these hospitals' operations, and by using the work of the Commission's financial inspectors to greater advantage.

For the past two years we have recommended the establishment of internal audit functions in the teaching hospitals. We have noted that the external auditors have also recommended the establishment of internal audit functions in these hospitals. Internal audit functions serve as a very effective management tool which can provide senior management with an objective means of reviewing, assessing and monitoring financial, operational and management controls and systems in the organization.

Although the Commission and the hospitals are supportive of implementing this function, it has not been implemented yet. Implementation is dependent upon the hospitals' submissions, and Commission's approval, of an appropriate organizational plan for the internal audit functions.

The Commission's fiscal controls and monitoring proeedures over funds disbursed to health care facilities also include budgetary and financial inspections of facility operations carried out by Commission finance officers and certain operational reviews carried out by standards officers. The Commission is continuing to broaden the role of its finance officers and strengthen the monitoring procedures so that in combination with the supplementary audit reporting process the inspection work can be used to greater advantage.

A committee composed of representatives from the Commission, the Manitoba Health Organizations, a hospital and my Office have developed a manual setting out guidelines for administrative, management and accounting control practices for health care facilities. The manual will be made available for distribution to the facilities and will be of assistance in maintaining administrative practices in the facilities.

We are very pleased with the constructive actions that are being taken by the Commission to improve the systems for accountability over payments to the health care facilities. However, further improvements could be realized in management controls in the teaching hospitals through the establishment of internal audit functions in these facilities. We will continue to monitor the progress of developments on these matters.

Accountability for remuneration for medical services

For several years we have reported inconsistencies in overhead recoveries for medical practices of physicians employed in the teaching hospitals where the hospitals provide services for these medical practices. Last year we reported that a Committee had been established by the Commission to review this and other related matters. The review was not completed by December 31, 1983, as previously anticipated, because of the complexity of these matters; but it is continuing.

There are a number of factors complicating the determination of the extent of the physicians' contributions for the overhead costs of the practices. One of the factors which has to be considered is the extent of contributions provided through the many different processes of deductions from the medical fees, such as expenditures incurred by the physicians, donations and overhead recoveries going to the hospitals, and contributions to the University of Manitoba under an income-sharing agreement. These deductions in total amount to a significant portion of the physicians' fees-for-service income.

The Committee has developed the principle that an overhead recovery is required from all fees-for-service generated by full-time physicians where the overhead cost is paid through the teaching hospitals' budgets. Progress has been made in expanding the overhead recoveries by implementing the principle in an emergency unit in a teaching hospital, and by the Commission's insistance upon appropriate overhead recoveries when it enters into new or revised arrangements for the development of services involving physician staffing in the hospitals.

The Committee is also reviewing the accountability for remuneration for hospital services funded by the Commission. In order to improve accountability over the operations, the teaching hospitals have provided written job descriptions to the Commission for each physician's position so that the nature and extent of the physician's services to the hospital and the rate of remuneration would be clearly documented. The Committee has reviewed the documentation, and, using a broader approach for accountability for remuneration, has considered the total amount paid to physicians for their services from public funds. The review has resulted in the identification of a number of matters requiring further review and clarification.

The Committee has established the principle that there should be appropriate accountability for Commission funding of allowances for medical administrative duties paid out of the teaching hospitals' budgets, and the principle that the incomes of the teaching physicians are to remain competitive.

An Overview Committee made up of representatives from the Faculty of Medicine of the University of Manitoba, the administration of the teaching hospitals and the Commission was established in 1983 to review and further define the aforementioned principles. This review is still in process.

We recognize that the issues involved in the overhead recoveries for medical practices and remuneration in the teaching hospitals are complex and that their resolution in an equitable manner will be a difficult task. It is hoped that the Commission will be able to satisfactorily resolve them. However, under the present circumstances, we are not in a position to be conclusive about the overall accountability for the overhead recoveries or the remuneration for the services provided. We will continue to monitor the progress on these matters.

Comptrollership function

We have recommended to the Commission that a review of the comptrollership function should be made with a view to strengthening this aspect of management control in the Commission's operations. The Commission has concurred with this recommendation and has undertaken this review in a positive and practical manner. The substantial size and complexity of the Commission's financial operations makes it essential that the responsibilities associated with the comptrollership function be clearly defined in the organization.

The Commission has recently re-defined its comptrollership function and assigned the responsibilities to one officer who can be seen as a focal point by managers to whom they could readily relate and through whom they can work to improve accountability. We will be reviewing this area of operations again during the course of our next audit.

Manitoba Housing and Renewal Corporation

We indicated in our report last year that the Minister of Housing was in the process of making organizational changes to address management problems previously reported. A new Board of Directors had been appointed with the Deputy Minister as Chairperson and three senior Corporation officials together with the former Chairperson as members. Since that time further changes have taken place. Two senior officials of the Corporation left, the responsibilities for these positions were revised and the positions filled within the Department of Housing. Effective April 1, 1984, the Government transferred the Corporation's staff, except for legal counsel, the administrative budgets and most of the housing programs to the Department of Housing. The programs not transfered to the Department are administered by staff within the Department. These changes have brought the housing operations more directly under the control of the Government.

The comments in the subsequent paragraphs update unresolved matters previously reported and include one new observation, being overexpenditures on rehabilitation of housing units.

Budgeting practices

Last year the Deputy Minister indicated that the matter of budgeting and reporting practices would be given special attention when the new position of Executive Director of Support Services was filled. This position was filled in the fall of 1983.

Improvements have been made in developing more appropriate budgeting procedures for the 1984-85 fiscal year and in establishing better accountability procedures. The carrying through of these procedures has progressed further in some areas than others mainly because of differences in the level of managerial capabilities of staff and the complexities of programs. Senior administrative officials are continuing to work with those managers where assistance is required. Because improvements are still required, the reports showing actual performance compared to budget, including variance explanations, are not yet at an appropriate level. This area should continue to receive special attention until it is proven to be stable on a continuing basis.

Rural and northern housing program

We indicated in our report last year that Corporation officials are faced with difficult decisions concerning the enforcement of collection policies with respect to rental and mortgage arrears under this program. Corporation officials were reviewing this matter with officials from Canada Mortgage and Housing Corporation, who also carry out a similar mortgage program in the Province. The Board has recently approved a revised policy respecting rental and mortgage arrears administration procedures. The procedures for mortgage units are similar to those carried out by C.M.H.C. The Minister has approved this revised policy.

The balance of the rental and mortgage arrears is $911 thousand at March 31, 1984, which is significantly higher than the amount of $768 thousand at March 31, 1983. While the arrears have increased about 18%, there was only a 2% increase in the number of new housing units added during the year. The lack of a suitable rental and mortgage administration policy for staff to follow, as well as continuing recessionary economic conditions, mainly account for the significant increase in the rental and mortgage arrears. The annual income reviews are in a relatively current situation except for three communities. Action is being taken to have these reviews brought into a current position. We will continue to monitor the progress of improvements in this program.

Overexpenditures on rehabilitation of housing units

The Corporation and C.M.H.C. entered into agreements in 1982 under the Rural and Northern Housing Program for the rehabilitation of housing units, including the installation of sewer and water services in some units, in four rural communities. The total approved estimated costs for these projects was $1,079,636, with C.M.H.C.'s share being 75% or $809,727. The expenditures on these projects to March 31, 1984 amounted to $2,785,079 with minor work still required. Revised cost estimates were not submitted to the Corporation's Board nor were the agreements with C.M.H.C. amended. The Corporation has requested C.M.H.C. to share in the total cost of these projects on the same basis as the approved agreements. C.M.H.C. has not advised the Corporation to what extent, if any, it will share in the overexpenditures.

The Corporation's internal auditor was requested to carry out a review to determine the reasons for the overexpenditures with respect to the largest of these four projects. The internal auditor carried out a review and submitted a report to the

senior management. His report indicated that the original capital budget was under-estimated relative to the extensive repairs required to these units, and that there was a lack of adequate project management by the Corporation.

The new Executive Director of Support Services was directed to develop and implement revised budgeting and accountability procedures for capital projects. Revised procedures, which will enhance project management, have been developed and these are being put into place. However, because of the number of other matters also requiring attention, the information being provided to management requires improvement for some projects. The Executive Director of Support Services indicated that this situation will be brought into a current position as soon as practically possible. We will continue to review the budgeting and accountability procedures for capital projects as a regular part of our ongoing audit work.

Manitoba Lotteries Foundation

In my previous year's report I expressed concern regarding deficiencies in administrative procedures and control capabilities of the Foundation. One major aspect of this overall concern was the absence of qualified accountants, auditors and trained inspectors. This staffing inadequacy resulted in the monitoring/control objectives of the Foundation to be largely unrealized in that there could be no comprehensive methodology for effectively monitoring or enforcing the Foundation's rules and procedures directed at controlling the lottery and gaming schemes of licencees.

The Commissioner's report on the Private Operators in Lotteries Inquiry, issued in June, 1983, contained numerous recommendations on ways to improve the serious deficiencies which were found to exist in the control over lottery and gaming operations in Manitoba.

At the time of my last year's report, the Commissioner's report was too recently issued to allow any corrective action to have been taken and on this basis, our further monitoring of progress on the Commissioner's report recommendations, which included our shared concerns, was deferred to the current year.

Since our previous year's report, the Foundation has undergone major changes as a result of Government's decision to take a more direct role over lottery and gaming activities within the Province. Certain of the more significant changes that have affected the mandate of the Foundation are as follows:

a) distribution of all government lottery tickets to retailers;

b) management of all casino operations;

c) management of all major bingo operations in privately owned halls or halls used for the sole or primary purpose of operating bingos;

d) supply and distribution of bingo paper;

e) supply and distribution of breakopen tickets; and

f) licencing of all lottery and gaming activities except raffles with prizes under $3,000.

These changes have required the Foundation to substantially increase its staffing component and to reorganize its overall operations. Towards this end, the Foundation has identified the organizational components, staff resources and operational methodologies required to appropriately carry out its new mandate. The phase-in period for bringing the Foundation's new activities into operating status was subject to difficult time limitations; however, it is apparent that despite the problems that would be inherent in such operational growth, significant improvements have been achieved in respect to most of the concerns expressed in the Commissioner's report.

Although we continue to have concerns in respect to certain deficiencies in administrative procedures and control capabilities, we are satisfied that corrective measures have been identified and scheduled for implementation. We will be monitoring the further progress of the Foundation as a part of our regular ongoing audits.

DEPARTMENTS AND AGENCIES OPERATIONS

Manitoba Telephone System

Financial statements disclosure

As a matter of additional information not disclosed in the System's financial statements, the following analysis of the changes in the Investment Fund account for the current and prior fiscal years is provided (*in millions of dollars*):

	March 31 1984	March 31 1983
Balance of the Fund beginning of year	$ 29.7	$ 27.7
Foreign exchange losses transactions:		
Balance beginning of year	32.7	31.2
Add:		
Cash set aside equal to the unrealized losses charged to operations	4.6	2.6
Cash set aside to cover the under-provided realized losses on redemptions before maturity charged to operations	—	.9
	37.3	34.7
Deduct:		
Cash withdrawn to cover the realized losses on redemptions	9.3	2.0
Balance end of year	28.0	32.7
Other transactions:		
Balance beginning of year	(3.0)	(3.5)
Add:		
Cash transferred to the Fund as directed by the Board	7.2	.5
Balance end of year	4.2	(3.0)
Balance of the Fund end of year	$ 32.2	$ 29.7

The reserve provision for rate setting purposes for unrealized foreign exchange losses, as shown in the above analysis, amounted to $28.0 million as at March 31, 1984 ($32.7 million as at March 31, 1983).

Workers Compensation Board

In my last year's report I commented that commencing with the fiscal year ended December 31, 1981 the operations of the Workers Compensation Board had taken an unprecedented turn in direction, resulting in a gradual deterioration of the financial position of the Class Fund. Successive and ever increasing annual deficits have been experienced by the Class Fund ($1.6 million — 1981; $12.1 million — 1982; $19.1 million — 1983). For 1984, a budgeted deficit of $15.0 million was projected; however, there is indication that the actual deficit may be somewhat greater than the projection. A grant of $4.0 million from the Province of Manitoba is included in arriving at the aforementioned projected deficit. The grant was made to defray, in part, certain unprovided for 1983 costs. The former surplus position in the Class Fund, which by Board policy was maintained at a level approximating the amount of the prior year's cost experience, has been steadily eroded and in 1984 the Class Fund could be in a deficit position of $11.0 million based on the budgeted projection.

As indicated in my last year's report, this deficit financing is not in compliance with Section 66(1) of The Workers Compensation Act which states that "the board shall every year assess and levy upon and collect from, the employers in each class ..... sufficient funds ..... (a) to meet all amounts payable from the accident fund under this Part during the year including administration costs ..... (c) to provide in each year capitalized reserves sufficient to meet the periodical payments of compensation accruing in future years in respect of all accidents that occur during the year ....."

From time to time amendments to the Workers Compensation Act authorized improved pension benefits on the basis of deferred cost recoveries amortized over seven years. The deferred cost recoveries amounted to $31.1 million as at December 31, 1983, an increase of $14.6 million over the amount as at the end of the preceding fiscal year.

I mentioned in my report last year that the Board had retained the services of actuaries to review its assessment and rate setting process. As a result of this review the Board implemented certain changes to the process to enhance the overall methodology of it. Using its updated methodology, the Board had determined that a 53% average increase for the 1984 assessment rates would be required to meet the minimum requirements of the Act. The Board further determined that a 76% average increase would be required to restore the Class Fund to its traditional surplus level over a five year period. However, an actual 1984 average assessment rate increase of only 20% was approved by Government. There are very obvious implications to this continuing practice of deferring assessment rate increases. It is not apparent how the Board and the Government intend to prevent the employers in future years from not being unduly and unfairly burdened with payments that are to be made in those years with respect to accidents that have previously happened; a matter which section 66(1) of the Act was clearly designed to prevent.

It is recommended that the Government and the Board take appropriate steps, including a provision for subsidies which may be necessary, to comply with section 66(1) of the Act. Alternatively, if Government and the Board have decided that there is to be a major change in policy away from the present fully funded requirement, which in reality is already happening, it is recommended that immediate steps be taken to implement the necessary revisions to The Workers Compensation Act and to develop data which will disclose the effect of such a change on the future demands of the Consolidated Fund of the Province of Manitoba.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Scope of Audit and Reporting Procedures

The scope of my Office's audit and reporting procedures, as set out in Exhibit 1 of this report, are consistent with those of the preceding year. The audits and reports thereon are up-to-date.

In addition to the audit of the Government of the Province of Manitoba, 57 Government agencies were audited by my Office and their financial statements reported on by me. The 57 agencies are listed in Exhibit 2 of this report. This is 6 more than the number shown in the previous year's Exhibit 2. One agency shown on last year's Exhibit was discontinued and seven others were added to this year's Exhibit 2. The changes consist of the following:

Discontinued:

- Manitoba School Capital Financing Authority — dis-established effective April 1, 1983

Added:

- A.E. McKenzie Co. Ltd. and Subsidiaries — transferred from an overview audit
- Manitoba Health Research Council — transferred from an overview audit
- Criminal Injuries Compensation Board — previously considered with the Workers Compensation Board
- Deer Lodge Centre — taken over from Canada
- Manitoba Intercultural Council — newly established organization
- Superannuation Resource Investment Corporation of Manitoba Inc. — newly incorporated investment mechanism
- Teachers's Retirement Resources Investment Corporation of Manitoba Inc. — newly incorporated investment mechanism

My Office also carried out overview audits only, with the attest audits being carried out by professional audit firms, of 14 Government agencies listed in Exhibit 3 of this report. This is 2 less than the number shown on last year's Exhibit 3. The changes consist of A. E. McKenzie Co. Ltd. and Subsidiaries, and Manitoba Health Research Council being transferred to my attest audit responsibilities as noted above.

Organization

The manner in which my Office is organized is shown in the Organizational Chart, Exhibit 4 of this report. The organizational structure has not changed from that of the preceding year.

Staffing

In my previous year's report we indicated that our authorized staff complement was established at 63 positions. This total has now been reduced to 61. This reduction in our staff complement was made to eliminate two unused staff positions. These two positions had not been used recently and they were not expected to be used in the foreseeable future. Our staff complement of 61 positions consists of 5 senior officers (management committee); 3 audit specialists (2 specializing in computer auditing and 1 in operational auditing); 12 senior auditors; 37 auditors, technical staff and accountancy students; and 4 secretarial and administrative staff. Even though there are 61 approved positions and at sometime during the year there could be up to that number of persons on staff, funds for only 57 positions were requested and voted for the fiscal year ended March 31, 1984, being the number of staff years required to carry out my Office's responsibilities. The actual staff years employed for the fiscal year ended March 31, 1984 were 56.15 compared with 55.00 for the preceding fiscal year.

By using staff turnover and term employment we are able to gear our recruitment program to workload demands. In our normal operations there frequently are a number of vacancies in authorized positions. As at April 30, there were 5 vacant positions. This was not because we were experiencing staffing difficulties, we are able to fill vacancies as needed.

I have continued to use the services on a contract basis of a partner from an international audit firm, who specializes in computer auditing to ensure that my office is up-to-date on the broadest basis in this area of auditing. In addition to providing advice and assistance by telephone and correspondence communications, the specialist attended and worked for 15 days in my Office during the fiscal year ended March 31, 1984.

Staff Training

The audit work in my Office is organized to maximize on-the-job training. In addition, formal training is provided where necessary to ensure that the staff is qualified to carry out its responsibilities.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Our formal training consists of courses organized and conducted by my Office, courses provided by the Civil Service Commission and courses sponsored by other organizations.

My Office recently established a course to teach computer programming for audit purposes. The training is designed to maintain expertise in my Office to maximize the use of computer assisted audit techniques. Four auditors are now in the process of taking this course.

My Office places high priority on developing managerial skills of our auditors. Accordingly, we took advantage of an opportunity to participate in a new training program for managers sponsored by the Civil Service Commission. This program involves training in setting priorities, decision making, problem solving and production of plans. All of our senior managers and a number of audit managers have already participated in the program. The remaining audit managers will participate in this program during 1984/85. We expect this program to have direct benefit to our managers in enabling them to carry out their responsibilities more effectively. This training gives our auditors a much better understanding of senior managers' responsibilities in an operational environment. As a result, the auditors are placed in a position to communicate much more effectively with senior managers of organizations which they audit concerning management deficiencies and corrective actions. Several of the auditors have also taken the Civil Service Commission's course on time management, and action planning and control.

Normally we participate in courses sponsored by outside organizations to keep up-to-date in our expertise. However, recognizing the severe financial constraints, we utilized our own resources for training to the maximum extent possible; and, this year only participated in the more expensive outside training in a very limited way. This consisted of two seminars concerning pro-active decision making and the design and audit of controls in advanced computer systems.

In addition to memberships in professional accounting associations of C.A., C.G.A. and R.I.A., memberships are also maintained by various auditors in such associations as E.D.P. Auditors Association, Institute of Internal Auditors, Institute of Public Administration, Canadian Comprehensive Audit Foundation and other similar organizations. Generally these organizations sponsor annual educational conferences and my Office participates in a selected number of these conferences. However, because of financial restraints our participation this year was also only on a very limited basis.

Our students registered in the professional C.A., C.G.A., and R.I.A. programs participate in the formal instructional courses provided by these organizations.

Several years ago the Legislative Auditors' Conference of Canada established a Legislative Auditors' Practices Committee consisting of representatives from the Audit Offices of Canada who are involved with training. This Committee provides valuable information to the Audit Offices for training based on the experiences in the various Offices. We were pleased to host the annual meeting of the Committee in Winnipeg in May 1984 attended by Directors of Professional Practices and Directors of Professional Development from the Audit Offices of Canada.

Revenue and Expenditure

The revenue and expenditure of the Office for the year ended March 31, 1984 as compared with budget and that of the preceding year are as follows (*in thousands of dollars*):

	Budget	Actual		
	March 31 1984	March 31 1984	1983	Increase Decrease
Revenue	$ 600.8	$ 647.0	$ 491.3	$ 155.7
Expenditure:				
Salary	2,221.8	2,105.2	1,857.4	247.8
Other	95.1	87.7	128.9	(41.2)
	2,316.9	2,192.9	1,986.3	206.6
Net expenditure	$1,716.1	$1,545.9	$1,495.0	$ 50.9

Variance explanations:

The variance for revenue between 1983/84 budget and actual is not significant. The variance for salary expenditure is mainly accounted for by a reduction in the expenditure through a delay in recruitment during staff turnover and the deferment of lower priority audit work to respond to a financial restraint due to difficult economic conditions. There was also a reduction in other expenditure, mainly for the same reason. The extent of a possible reduction in the expenditure of the Audit Office for restraint purposes without a reduction in government program activities and a corresponding audit workload reduction is quite limited. The

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Office is continually updating its audit methodology and employing a quality control system to maximize efficiency. A disciplined audit time management system is also in use based on an audit time budget established at the appropriate audit level. The Provincial Auditor's Act places the responsibility with the Provincial Auditor to maintain the audit level to be consistent with professional standards and the public interest.

The variances for revenue and expenditure between 1983/84 actual and 1982/83 actual mainly arises from inflationary factors and from eleven attest audit assignments undertaken by my Office about two years ago. The increase in expenditure to cover the additional audit work was phased in over the two fiscal years, 1982/83 and 1983/84, in accordance with the workload demands. The revenue was also phased in over the two fiscal years on a cash receipts basis as the work was completed and the charges paid. This is a matter which was also referred to in my last year's report.

The revenue consists of the recovery of attest audit expenditure of my Office from government agencies. The recoveries are made under the authority of the Provincial Auditor's Act in accordance with a rate established by an order-in-council, being salary expenditure plus 25 percent for overhead.

Audit of the Accounts of the Provincial Auditor's Office

An audit of the accounts of the Provincial Auditor's Office in accordance with section 19 of The Provincial Auditor's Act was carried out for the year ended March 31, 1984 by a professional accountant from the Comptroller's Division, Department of Finance. A copy of the audit report issued to the Minister of Finance is included as Exhibit 5 in this report.

Meeting of Legislative Auditors

The annual Canadian Conference of Legislative Auditors was held in Charlottetown, Prince Edward Island July 9-11, 1984. These meetings serve as a useful forum for the sharing of matters of mutual interest and discussion of technical and other information important to the work of our Offices. The Assistant Provincial Auditor and I attended the conference.

At the same time, representatives of the Public Accounts Committees in Canada held their annual meeting in Charlottetown. This enabled the agendas of both groups to be arranged for a joint session to again discuss matters of common interest.

The 1985 Canadian Conference of Legislative Auditors is being arranged by the Auditor General of Canada and it will be held in Whitehorse, Yukon. Arrangements are again being made for a joint session with representatives from the Public Accounts Committees.

Provincial Auditor's Liaison Committee of the Institute of Chartered Accountants of Manitoba

In recent years the Provincial Auditor has had increasing involvement with the Manitoba Institute of Chartered Accountants and its members. This involvement has been with the Council of the Institute, several of the Institute's committees and, informally, with members and staff of the Institute participating in the preparatory work for certain of the Institute's committees. There has also been significantly more involvement with individual members of the Institute in carrying out our overview and inspection audits and grant accountability work. As contact increased with Council, the committees and individual members there was a decreased need for meetings with the Provincial Auditor's Liaison Committee. Because of these other contacts and a matter which was referred to the Provincial Auditor's Liaison Committee being taken over by the Executive Committee, it was not necessary for the Committee to meet during the year ended March 31, 1984; members have not been appointed to it for the upcoming year. The Executive Committee of Council has undertaken to fulfill the function of the Provincial Auditor's Liaison Committee. I would like to acknowledge my appreciation to the Institute and its members who have served on the Provincial Auditor's Liaison Committee in previous years and to its other members and committees with whom my Office has a continuing relationship.

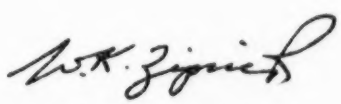
ACKNOWLEDGEMENTS

I am pleased to acknowledge the understanding, co-operation and assistance extended to me and my auditors by officials and staff of Departments and Crown Agencies, and to express our sincere thanks to them.

As this is my last report to the Legislative Assembly, I would like to express my appreciation for having been given the opportunity to serve the Legislature and the people of Manitoba as Provincial Auditor for the past twelve years. It has been a rewarding and satisfying experience for me.

At this time, I would also like to thank all the Members of the Legislative Assembly for their understanding and support.

Finally, it is with great pleasure that I extend my sincere appreciation and thanks to the employees of my Office for their faithful performance of their duties in a highly professional manner. I also want to extend to them my continuing best wishes.



W. K. Ziprick, C.A.,

Provincial Auditor.

October 31, 1984,

Winnipeg, Manitoba.

EXHIBITS

1. Scope of audit and reporting procedures.

2. Schedule of government agencies whose accounts were audited and the financial statements reported on by the Provincial Auditor.

3. Schedule of government agencies whose accounts were audited and the financial statements reported on by Professional Audit Firms with an overview audit by the Provincial Auditor.

4. Organizational chart of the Provincial Auditor's Office.

5. Report on the audit Provincial Auditor's Office.

6. Summary of Special Warrants by Departments.

7. A reproduction of my report in the Public Accounts on financial statements included therein.

8. A reproduction of the Operating Fund Assets and Liabilities and Trust Fund Assets and Liabilities in the Public Accounts.

9. A reproduction of the Summary of Revenue and Expenditure in the Public Accounts.

10. A reproduction of the Excess of Liabilities Over Recorded Assets in the Public Accounts.

11. A reproduction of the Statement of Changes in Financial Position — Operating Fund in the Public Accounts.

12. A reproduction of the Accounting Policies — Statement of Application in the Public Accounts.

SCOPE OF AUDIT AND REPORTING PROCEDURES

General Comments

In accordance with the Provincial Auditor's Act, the Provincial Auditor's Office is required to carry out various kinds of audits, and a monitoring of accountability to the Legislature concerning the Provincial Government, its agencies and the recipients of public moneys. The Office carries out broad scope financial and administrative management audits of the Provincial Government and certain of its agencies, administrative management overview audits of the remaining government agencies whose financial audits are carried out by private audit firms, and inspection audits of selected recipients of public moneys. Particulars of these types of audits and their reporting procedures are outlined in the following sections.

Audits of the Provincial Government and its Agencies Entirely Audited by the Provincial Auditor

The Provincial Government, including the Consolidated Fund and all its departments, and the government agencies listed in Exhibit 2, are being audited using a systems based audit approach under the direction of professional accountants. These audits consisted of the following four components:

1. A financial examination for expressing an opinion on the fairness of the presentation in the financial statements. This examination is conducted in accordance with generally accepted auditing standards and includes a general review of the accounting procedures and systems of internal controls, together with such tests of accounting records and supporting evidence as are considered necessary in the circumstances.

2. An audit of payments from the Consolidated Fund. This audit is carried out on an on-line basis as the requests for payments are presented by departments, just before the requests are processed for payment by the central system. This part of the audit is fully co-ordinated with the systems based audits of departments. This approach complies with the pre-audit requirements of sections 10 and 11 of the Provincial Auditor's Act and is designed to provide an early detection of weaknesses or problems so that prompt corrective action can be taken. It also maintains the audit activity in a current position and adds discipline over special and unusual payments. This audit of payments consists of:

   a) An examination of all requests for payments to ensure that there is legislative authority for the payment, that the requests for payment are approved by designated officials and are being handled in a business-like manner to appropriately protect the Province's interests. Requests for payment not meeting the aforementioned requirements would be refused. Where there is no legislative authority, payments cannot be made. Payment refused for other reasons can only be made on special authority of the Minister of Finance. Audit observations are normally attended to in a satisfactory manner so as to preclude any need for refusal. However, should there be a refusal the particulars would be fully reported to the Legislature in the annual report.

   b) Test checking of requests for payments for completeness of supporting documentation, accuracy of arithmetic calculations, compliance with government directives, etc. to ensure that the departmental purchasing, payroll and disbursements systems are operating satisfactorily. Matters noted which indicate that audit attention is required are referred to the staff member in the Provincial Auditor's Office charged with the overall departmental audit responsibility for further consideration in the evaluation of the departmental systems, and in the development of audit recommendations for improvement. If the testing and evaluation of departmental systems revealed a breakdown, and it was concluded that the work being carried out by departmental personnel could not be relied upon to safeguard provincial funds, further requests for payments would be refused. Payments could then only be made on the special authority of the Minister of Finance. Departmental systems are normally corrected to incorporate audit recommendations for improvement on an ongoing basis to maintain the integrity of the systems. However, should this not be done and there was need for refusal of payment requests, the matter would be fully

reported to the Legislature in the annual report.

3. An examination of the administrative management and its controls to ascertain that the entity is organized and operating in a business-like manner with due regard for economy, efficiency and effectiveness. This examination is carried out within the capabilities of professional accountants with specialized training and experience. It includes a review of the entity's objectives and organizational structure, its budgeting and monitoring systems for comparing actual to budget with variance explanations, its internal audit system and other performance monitoring systems, its purchasing and staffing procedures, and its compliance with government guidelines.

4. A more in-depth investigation concerning specific problems observed during the course of the aforementioned examinations and noted from other sources such as:

   - concerns expressed in the Legislature or any of its committees;
   - reports in the news media; and,
   - concerns expressed privately by elected members, public servants and the general public. The sources of this information are held strictly confidential.

Management Overview Audits of Government Agencies Not Audited in their Entirety by the Provincial Auditor

Management overview audits are carried out by the Office for those government agencies listed in Exhibit 3. These are agencies for which audit firms were appointed to carry out audits for reporting on their financial statements. These audits by the audit firms are of a kind as described in the preceding component 1. The management overview audits by the Office consist of a review of the audited financial statements and management reports of the audit firms and the procedures as described in the preceding components 3 and 4.

Inspection Audits of Recipients of Public Moneys

The inspection audits of recipients of public moneys are carried out under the authority of section 17(4) of the Provincial Auditor's Act. These audits consist of visits to only a very limited number of grantees; the audit procedures are similar to those of the management overview audits described in the preceding section. An audit of a much larger number of grantees' accountability is carried out during the course of the audits of government departments and government agencies. These audit procedures mainly involve a review of the adequacy of the grantors' monitoring systems and the findings of these systems, together with an assessment of the findings and a determination that appropriate corrective action is being taken.

Reporting Procedures

Reporting on financial statements

Reports are issued on the fairness of the presentation of information in the financial statements in the Public Accounts, and of the government agencies listed in Exhibit 2.

Internal reporting

Observations made during the course of our audits identifying weaknesses in internal control, ineffective supervision, records not being up-to-date and any other deficiencies or irregularities are recorded in the working papers and immediately brought to the attention of the officials concerned for appropriate action. Matters of a kind which warrant the attention of ministers and chairpersons of the boards of government agencies are directed to them in written reports in accordance with the requirements of subsection (3) of section 12 of The Provincial Auditor's Act. During subsequent visits our auditors follow-up these matters to ascertain that appropriate action has been taken to resolve the problems.

Annual report to the Legislative Assembly

Significant problems, which have been reported to ministers and chairpersons of the boards of government agencies but which have not been resolved within a reasonable period of time, are reported on in the annual report to the Legislative Assembly. A number of significant problems which have been resolved are also included in the annual report. They are of a kind which in the Provincial

SCOPE OF AUDIT AND REPORTING PROCEDURES

Auditor's judgement warrant the attention of the Assembly as information, either because they were raised in the Assembly, or a committee of the Assembly, or for reasons of maintaining confidence in the system. Both the problems and the corrective actions are reported.

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Accounts Were Audited and the Financial Statements Reported on by the Provincial Auditor

Name of Organization	Fiscal Year Ended
A. E. McKenzie Co. Ltd. and Subsidiaries	October 31, 1983
Alcoholism Foundation of Manitoba	March 31, 1984
Board of Administration under The Embalmers and Funeral Directors' Act	December 31, 1983
Brandon University	March 31, 1984
Brandon University Pension Fund	December 31, 1983
Centre Culturel Franco-Manitobain	March 31, 1984
Channel Area Loggers Limited	March 31, 1984
Civil Service Superannuation Fund	December 31, 1983
Communities Economic Development Fund	March 31, 1984
Co-operative Loans and Loans Guarantee Board	March 31, 1984
Co-operative Promotion Board	March 31, 1984
Criminal Injuries Compensation Board	March 31, 1984
Deer Lodge Centre	March 31, 1984
Department of Municipal Affairs — Minister's Trust Account	March 31, 1984
Horse Racing Commission	December 31, 1983
Leaf Rapids Town Properties Ltd.	March 31, 1984
Legal Aid Services Society of Manitoba	March 31, 1984
Liquor Control Commission	March 31, 1984
Manitoba Agricultural Credit Corporation	March 31, 1984
Manitoba Arc Authority Incorporated	March 31, 1984
Manitoba Arts Council	March 31, 1984
Manitoba Beef Commission	March 31, 1984
Manitoba Centennial Centre Corporation	March 31, 1984
Manitoba Crop Insurance Corporation	March 31, 1984
Manitoba Data Services Commission	March 31, 1984
Manitoba Development Corporation	March 31, 1984
Manitoba Forestry Resources Ltd.	September 30, 1983
Manitoba Health Research Council	March 31, 1984
Manitoba Health Services Commission	March 31, 1984
Manitoba Hospital Capital Financing Authority	March 31, 1984
Manitoba Housing and Renewal Corporation	March 31, 1984
Manitoba Intercultural Council	March 31, 1984
Manitoba Lotteries Foundation	March 31, 1984
Manitoba Mental Health Research Foundation	March 31, 1984
Manitoba Milk Prices Review Commission	March 31, 1984
Manitoba Mineral Resources Ltd.	December 31, 1983
Manitoba Research Council	March 31, 1984
Manitoba Text Book Bureau	March 31, 1984
Manitoba Trading Corporation	March 31, 1984
Manitoba Vegetable Producers' Marketing Board	June 30, 1983

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Accounts Were Audited and the Financial Statements Reported on by the Provincial Auditor

Name of Organization	Fiscal Year Ended
Manitoba Water Services Board	March 31, 1984
Moose Lake Loggers Ltd.	March 31, 1984
Municipal Employee Benefits Fund	December 31, 1983
Northern Affairs Fund	March 31, 1984
Peak of the Market Sales Ltd.	June 30, 1983
Public Schools Finance Board	December 31, 1983
Public Service Group Insurance Fund	April 30, 1983
Public Trustee of Manitoba	March 31, 1984
Superannuation Resource Investment Corporation of Manitoba Inc.	December 31, 1983
Teachers' Retirement Allowances Fund	December 31, 1983
Teachers' Retirement Resources Investment Corporation of Manitoba Inc.	December 31, 1983
Universities Grants Commission	March 31, 1984
University of Manitoba	March 31, 1984
University of Manitoba Pension Plan (1970)	December 31, 1983
University of Winnipeg	March 31, 1984
Venture Manitoba Tours Ltd.	March 31, 1984
Winnipeg Racing Ltd.	December 31, 1983

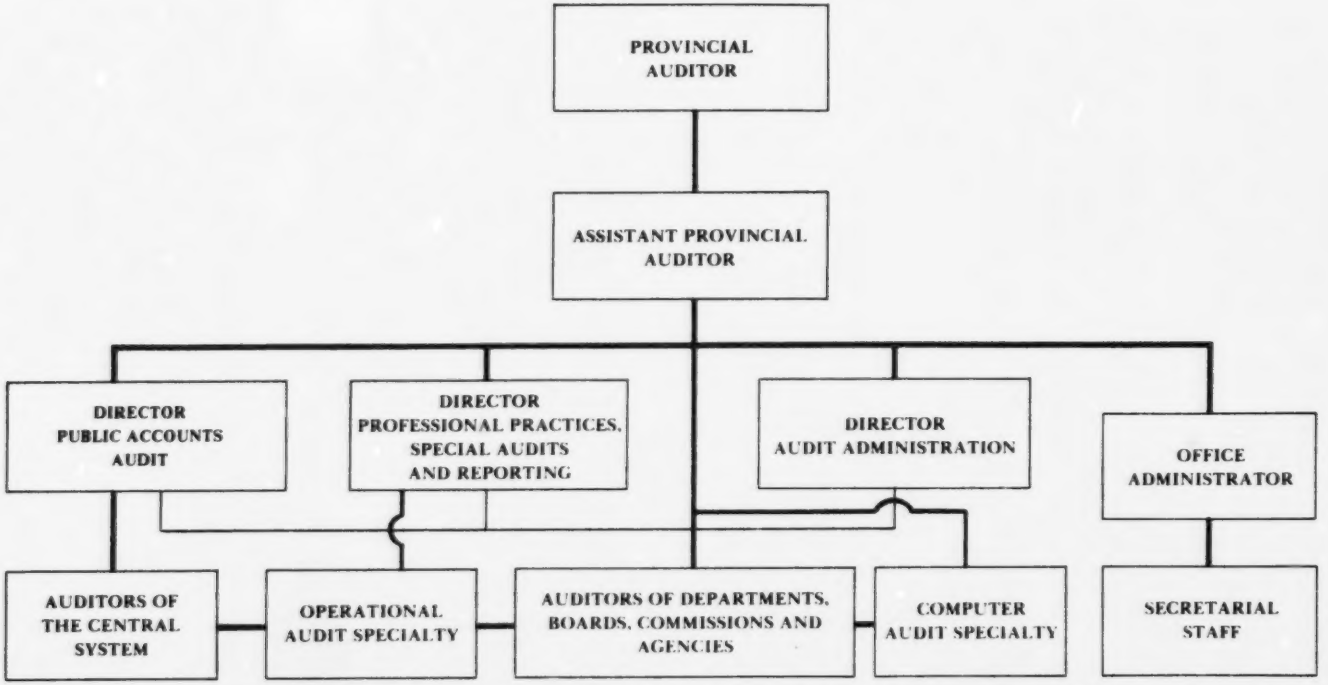
In addition to the foregoing, there are other government agencies which do not have their own funds but carry out their operations through the Consolidated Fund. The operations of these agencies are audited as part of our regular audit of the Consolidated Fund.

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Accounts Were Audited and the Financial Statements Reported on by Professional Audit Firms with an Overview Audit by the Provincial Auditor

Name of Organization	Fiscal Year Ended
Alonsa Conservation District No. 3	December 31, 1983
Cooks Creek Conservation District No. 5	December 31, 1983
Credit Union Stabilization Fund	December 31, 1983
Flyer Industries Limited	December 31, 1983
Fonds de Sécurité des Caisses Populaires	December 31, 1983
Manitoba Boxing and Wrestling Commission	March 31, 1984
Manitoba Hydro-Electric Board	March 31, 1984
Manitoba Public Insurance Corporation	October 31, 1983
Manitoba Telephone System	March 31, 1984
Rehabilitation Centre for Children Inc.	March 31, 1984
Turtle Mountain Conservation District No. 4	December 31, 1983
Turtle River Watershed Conservation District No. 2	December 31, 1983
Whitemud Watershed Conservation District No. 1	December 31, 1983
Workers Compensation Board	December 31, 1983

ORGANIZATIONAL CHART OF THE PROVINCIAL AUDITOR'S OFFICE



The chart is structured on a hierarchical basis but in practice the roles and responsibilities may overlap. The overall policies and operations of the Audit Office are directed by a Management Committee consisting of the Provincial Auditor, the Assistant Provincial Auditor and the three Directors with each member focusing his attention on specific areas of responsibility. The operational policies are set out in an Office Manual.

MANITOBA
DEPARTMENT OF FINANCE
Comptroller's Division

September 28, 1984

Honourable Victor Schroeder
Minister of Finance
103 Legislative Building

Dear Sir:

Section 19 of the Provincial Auditor's Act states:

> "A qualified auditor nominated by the Executive Council or a committee thereof shall examine the receipts and disbursements of the Office of the Provincial Auditor and shall annually make a report of the outcome of the examination to the assembly which shall be submitted to the member of the Executive Council charged with the administration of The Financial Administration Act on or before the last day of December next following the end of the fiscal year of the government to which the report relates."

My Division now performs this audit on a regular basis. Under my direction, an auditor from the Systems Planning and Development Branch has conducted an audit of the Provincial Auditor's Office for the year ended March 31, 1984.

The audit was limited to a general review of the accounting procedures and accounting records of the Provincial Auditor's Office. Such tests were performed as were considered necessary in the circumstances.

In my opinion, the accounts of the Audit Office are maintained in an efficient, well organized manner and comply with all the requirements of the Financial Administration Act and all other applicable statutes.

Yours truly,

W. C. Fraser
Comptroller
Department of Finance

cc: W.K. Ziprick

Exhibit 6

GOVERNMENT OF THE PROVINCE OF MANITOBA

Summary of Special Warrants by Departments

Department	Year Ended March 31 1984	1983
Legislation	$ 103,500	$ —
Executive Council	125,400	14,200
Agriculture	—	575,000
Attorney-General	1,508,100	3,346,200
Civil Service	2,650,228	3,395,400
Community Services and Corrections	6,093,800	14,538,000
Consumer and Corporate Affairs	43,000	11,000
Co-operative Development	52,000	278,300
Cultural Affairs and Historical Resources	—	536,400
Education	2,375,000	3,597,800
Energy and Mines	—	200,300
Environment and Workplace Safety and Health	4,193,100	669,000
Finance	7,000,000	6,103,700
Fitness, Recreation and Sport	6,000	133,100
Government Services	1,450,400	1,060,300
Health	—	1,420,200
Highways and Transportation	—	3,120,500
Housing	—	100,000
Labour and Employment Services	286,000	540,000
Municipal Affairs	—	1,543,800
Natural Resources	6,455,800	955,200
Northern Affairs	1,608,300	845,000
Urban Affairs	602,877	1,060,600
Flood Control and Emergency Expenditures	2,700,000	—
Public School Support	67,000,000	—
	$ 104,253,505	$ 44,044,000

NOTE: The 1983 figures have been restated where necessary for comparison purposes to reflect transfers between departments in 1984.

REPORT OF THE PROVINCIAL AUDITOR ON THE CONSOLIDATED FUND FINANCIAL STATEMENTS IN THE PUBLIC ACCOUNTS OF MANITOBA

I report that the Consolidated Fund financial statements together with the supporting data and explanatory notes included in the Public Accounts have been examined under my direction for the fiscal year ended March 31, 1984. The examination was made in accordance with generally accepted auditing standards and included such inquiries, tests and other procedures as were considered necessary to enable me to report as required by section 14 of The Provincial Auditor's Act.

The subtotal on the statement of Summary of Revenue and Expenditure for the fiscal year ended March 31, 1984 stated as Excess of Expenditure Over Revenue of $428,949,282 ($434,647,385 for March 31, 1983) compares with the final amount shown in last year's statement and consistently reflects the excess of expenditure over revenue in accordance with the stated accounting policies. The final amount shown in this year's statement stated as Net Operating Deficit of $165,461,188 for the year ended March 31, 1984 ($196,658,643 for March 31, 1983) does not take into account such major operating costs as either the depreciation of capital assets or a sinking fund provision for the repayment of debt and, therefore, does not realistically reflect the net operating deficit. As a result, I am not in a position to agree with the fairness of this presentation.

The accounting policies — Application II Expenditure states: "The Allowance for Losses on Realization of Assets is not charged to an appropriation. This amount, which represents an estimate of the change in recoverable value of the loans, advances and investments in Crown Corporations, Agencies, Boards and Commissions during the fiscal year, is not shown on the Statement of Revenue and Expenditure. It is reported on the statement that discloses the Excess of Liabilities Over Recorded Assets unless there is a legal realization of the loss, in which case the final write off of the loan, advance or investment will be disclosed after the operating results on the Summary of Revenue and Expenditure. The final write off of the loan, advance or investment will be detailed as to the year in which the allowance was recorded". Investments in the Manitoba Forestry Resources Ltd. of $51,270,793, for which an allowance was previously provided, were written off by Order-in-Council dated November 30, 1983. This amount, which was written off, was not disclosed as an addition after the operating results on the Summary of Revenue and Expenditure but in Note 1 of this statement. The amount written off was reflected in the statement of Excess of Liabilities Over Recorded Assets as a prior years' adjustment.

In my opinion, except for the matters referred to in the preceding two paragraphs, the Consolidated Fund financial statements, together with the supporting data and explanatory notes in the Public Accounts, fairly present information in accordance with the accounting policies of the Government stated in the Public Accounts on a basis consistent with that of the preceding year, except for the adjustments for public schools support grants, provincially collected taxes and payments under the Insulation Loan Program as explained in Accounting Policies Application VI-a) b) and c). I agree with the accounting adjustments. The effect of these adjustments on a retro-active basis is a reduction of the excess of expenditure over revenue for the year ended March 31, 1984 by $12,095,532.

W. K. Ziprick, C.A.,
Provincial Auditor.

October 31, 1984,
Winnipeg, Manitoba.

GOVERNMENT OF THE PROVINCE OF MANITOBA

OPERATING FUND ASSETS AND LIABILITIES

As at March 31, 1984

(with comparative figures for March 31, 1983)

ASSETS	March 31, 1984	March 31, 1983
Temporary Investments	$ 799,686,548	$ 772,841,573
Advances and Other Receivables:		
Crown Corporations, Agencies, Boards and Commissions (Net of related Sinking Funds of $88,664,715 at March 31, 1984 and $83,941,123 at March 31, 1983)	2,041,499,514	1,947,392,157
Government of Canada and Others	129,038,847	67,791,846
Long Term Investments	251,238,665	247,333,110
	$3,221,463,574	$3,035,358,686
LESS: Allowance for Losses on Realization of Assets	131,600,976	134,955,156
Total Assets	$3,089,862,598	$2,900,403,530
Serial Debentures of School Divisions and Districts Transferred from The Manitoba School Capital Financing Authority	201,162,196	–
Excess of Liabilities over Recorded Assets	2,055,189,722	1,546,707,928
	$5,346,214,516	$4,447,111,458
LIABILITIES		
Amount Owing to the Trust Fund	$ 469,682,116	$ 497,498,324
Bank Overdraft and Promissory Notes	80,472,903	18,573,808
Accounts Payable, Accrued Charges and Funds Subject to Call	374,704,770	367,628,030
	$ 924,859,789	$ 883,700,162
Bonds, Debentures and Other Long Term Debt	$4,966,311,055	$4,005,061,548
LESS: Sinking Funds Provided	515,456,328	412,150,252
	$4,450,854,727	$3,592,911,296
LESS: Debentures issued under Financial Assistance Agreements	29,500,000	29,500,000
	$4,421,354,727	$3,563,411,296
Total Liabilities	$5,346,214,516	$4,447,111,458
GUARANTEED AND INDIRECT LIABILITIES		
Securities Guaranteed by the Government, as listed on Pages 3-9 to 3-12		
Self-supporting Debt	$1,624,681,690	$1,649,019,374
Debt Serviced in Whole or in Part from the Consolidated Fund	18,958,129	238,080,473
	$1,643,639,819	$1,887,099,847
LESS: Applicable Sinking Funds	241,060,666	223,420,478
	$1,402,579,153	$1,663,679,369

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND ASSETS AND LIABILITIES

As at March 31, 1984
(with Comparative Figures for March 31, 1983)

ASSETS	March 31, 1984	March 31, 1983
Amount Due from Operating Fund	$469,682.116	$497,498,324
Cash and Investments	476,315,852	386,365,289
Total Trust Assets	$945,997,968	$883,863,613
LIABILITIES		
Trust Fund Balances	$945,997,968	$883,863,613
Total Trust Liabilities	$945,997,968	$883,863,613
CUSTODIAL TRUST FUNDS		
Cash, Bonds and Other Securities held by the Department of Finance and Other Government Departments — as listed on page 5 - 20	$416,083,562	$615,206,216

GOVERNMENT OF THE PROVINCE OF MANITOBA

SUMMARY OF REVENUE AND EXPENDITURE

For the Year Ended March 31, 1984
(with comparative figures for March 31, 1983)

Actual 1982-1983	Actual 1983-1984	Net Increase (Decrease)		1983-1984 Actual	1983-1984 Estimated	1983-1984 Variance
$2,843,608,038	$3,226,104,237	$382,496,199	Expenditure	$3,226,104,237	$3,326,739,600	$(100,635,363)
2,408,960,653	2,797,154,955	388,194,302	Revenue	2,797,154,955	2,747,819,400	49,335,555
$ 434,647,385	$ 428,949,282	$ (5,698,103)	**Excess of Expenditure Over Revenue**	$ 428,949,282	$ 578,920,200	$(149,970,918)
237,988,742	263,488,094	25,499,352	Less: Expenditure Related to Capital Assets	263,488,094	281,224,800	(17,736,706)
$ 196,658,643	$ 165,461,188	$ (31,197,455)	**Net Operating Deficit**	$ 165,461,188	$ 297,695,400	$(132,234,212)

NOTE 1: Adjustments to the Government's Asset and Liability Accounts which result from the operations of previous fiscal years and do not directly affect the Revenue and Expenditure of the fiscal year being reported, are disclosed on the statement entitled "Excess of Liabilities Over Recorded Assets". In 1983-84, this includes the cancellation of preferred shares of Manitoba Forestry Resources Ltd. (MFR), in the amount of $51,270,793, which were held by the Government as long term investments.

These shares covered the initial capital deficit of MFR which resulted from costs incurred in excess of the actual value of the assets of Churchill Forest Industries (CFI) taken over by MFR in 1973. The deficit has been carried in the accounts of the government in the form of preferred shares of MFR pending conclusion of legal proceedings related to CFI and an Allowance For Losses on Realization of these shares has been recorded since 1979. With legal action substantially concluded, the government, by Order in council No. 1296/83 dated November 30, 1983 authorized the write-off of $51,270,793 of MFR's liability to the government representing MFR's capital deficit. This adjustment has been reflected in the government's accounts as a cancellation, in part, of the preferred shares of MFR.

NOTE 2: The "Estimated" Expenditure shown above consists only of the Main and Supplementary Estimates. This amount was increased during the fiscal year as follows:

Main and Supplementary Estimates (including general statutory appropriations)	$3,326,739,600
Special Warrants	104,253,505
Adjustment of estimated amount of statutory appropriations to actual expenditure	(45,522,036)
Total Authorized Expenditure	$3,385,471,069

NOTE 3: The amounts shown for Expenditure Related to Capital Assets are the total amounts expended without any reduction for related revenues. Revenue for the fiscal years 1982-83 and 1983-84 includes Revenue Related to Capital Assets of $21.1 million and $19.0 million repec-tively.

GOVERNMENT OF THE PROVINCE OF MANITOBA

EXCESS OF LIABILITIES OVER RECORDED ASSETS

As at March 31, 1984

Balance March 31, 1983		$1,546,707,928
Prior Years' Adjustments:		
Accounting adjustment regarding Grant Payments to School Divisions (Note 1)	$ 72,083,615	
Cancellation in part of preferred shares of Manitoba Forestry Resources Ltd. (Note 2)	51,270,793	
Accounting Adjustment to record taxes Collected and held by Agents in March 1983 (Note 3)	(40,467,716)	82,886,692
		$1,629,594,620
Excess of Expenditure over Revenue for the fiscal year ended March 31, 1984		428,949,282
		$2,058,543,902
DEDUCT:		
Decrease in Allowance For Losses on Realization of Assets		
March 31, 1983 Balance	$134,955,156	
March 31, 1984 Balance	131,600,976	3,354,180
Balance March 31, 1984		$2,055,189,722

NOTE 1: This adjustment results from the Government's decision to improve the accounting for payments to School Divisions so that school expenditures will be reflected in the Government's accounts in the fiscal year in which they are incurred. Consequently, payments made in April, 1983, totalling $72,083,615 which cover services provided during the period January to March, 1983, have been transferred from the Department of Education appropriation to this account as a prior year adjustment. Offsetting this adjustment are payments made for the comparable period in 1984 which have now been recorded as a Public Schools Support expenditure for the 1983-84 fiscal year.

NOTE 2: The initial capital deficit of Manitoba Forestry Resources Ltd. (MFR) representing costs incurred in excess of the actual value of the assets of Churchill Forest Industries (CFI) taken over by MFR in 1973 has been carried in the accounts of the government in the form of preferred shares of MFR pending conclusion of legal proceedings related to CFI. With legal action substantially concluded, the government, by Order in Council No. 1296/83 dated November 30, 1983 authorized the write-off of $51,270,793 of MFR's liability to the government representing MFR's capital deficit. This adjustment has been reflected in the government's accounts as a cancellation, in part, of the preferred shares of MFR which were formerly held by the government as long term investments.

NOTE 3: An inconsistency in the accounting treatment for provincially collected tax revenue was adjusted in the 1983-84 fiscal year. Amounts received in April, 1984 with respect to collections by agents in March, 1984 are now recorded as an account receivable at March 31, 1984 and have been included in revenue for the 1983-84 fiscal year. The adjustment of $40,467,716 represents amounts received in April, 1983 with respect to collections by agents in March, 1983.

Exhibit 11

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF CHANGES IN FINANCIAL POSITION — OPERATING FUND

For the Year Ended March 31, 1984
(with comparative figures for the year ended March 31, 1983)

		March 31, 1984		March 31, 1983
EXCESS OF EXPENDITURE OVER REVENUE		$428,949,282		$434,647,385
Prior Years' Adjustments				
Provincial Grant Payments to School Divisions	$ 72,083,615		-	
Provincially Collected Tax Revenue	(40,467,716)	31,615,899	-	-
Decrease in Reserves for Depreciation and Replacement		-		1,221,235
Cash Transfer on Disolution of The Manitoba School Capital Financing Authority (Note 1)		(2,882,424)		-
Net Increase in Long Term Investments, Advances and Other Receivables in Respect of:				
Crown Corporations, Agencies, Boards and Commissions	$149,283,703		$367,454,279	
Others	5,757,225		5,355,854	
	$155,040,928		$372,810,133	
Principal repayments on Serial Debentures transferred from The Manitoba School Capital Financing Authority (Note 1)	(11,180,380)	143,860,548	-	372,810,133
NET FINANCIAL REQUIREMENT		$601,543,305		$808,678,753
FINANCING WAS PROVIDED BY:				
Debt Transactions				
Proceeds of Loans	$1,050,651,583		$909,651,192	
LESS: Retirement of Loans	304,627,076		127,973,641	
	$ 746,024,507		$781,677,551	
LESS: Net Contributions to Sinking Funds	103,306,076		70,803,409	
NET PROCEEDS FROM BORROWING		642,718,431		710,874,142
FINANCING EXCEEDED REQUIREMENT		$ 41,175,126		$ (97,804,611)
WORKING CAPITAL (DEFICIENCY) BEGINNING OF YEAR		(77,346,128)		20,458,483
WORKING CAPITAL (DEFICIENCY) END OF YEAR		$ (36,171,002)		$ (77,346,128)

NOTE 1: On April 1, 1983, by an Act of the Legislature, The Manitoba School Capital Financing Authority was dissolved and all of its assets represented by $212,342,576 of investments in School Division and District Serial Debentures, $2,882,424 in cash and its liabilities represented by $215,225,000 of Debentures issued by the Authority and guaranteed by the Government were assumed by the Province. The cash balance and the principal repayments received on the investments are to be allocated to the Province of Manitoba Sinking Fund for the retirement of the liabilities assumed by the Province.

STATEMENT

The basic accounting policies followed by the Government of Manitoba, which have been applied in the preparation of these Public Accounts, are summarized below. These policies have been developed and are applied in accord with the provisions of the Financial Administration Act, which is Chapter F55 of The Continuing Consolidation of The Statutes of Manitoba. Further information regarding their application to the financial transactions of the Government is provided in the section entitled "Application".

I. THE ACCOUNTING ENTITY

The financial transactions of the Government are recorded in "The Consolidated Fund ". The activities of The Consolidated Fund are divided into the "Operating Fund", which records the operational activities of the Government, and the "Trust Fund", which records the trust administration function.

Financial statements prepared for the "Operating Fund" report amounts received as Government revenue, expenditure on Government programs, the lending and investment of Government funds and the borrowing and repayment of debt. Financial statements prepared for the "Trust Fund" report the activities in the various categories of trust money administered by the Government.

The financial operations of the provincial Crown Corporations, Agencies, Boards and Commissions are reflected in The Consolidated Fund to the extent that:

1) They receive money from or pay money to the Government.

2) Any deficits they incur are adjusted against the amounts loaned, advanced or invested in them by the Government.

II. CASH BASIS OF ACCOUNTING

A REVENUE

i) Revenue, with the exception of provincially collected tax revenue, shared-cost receipts and Canada-Manitoba Fiscal Arrangements, is ordinarily recorded on a cash basis. Accordingly, all money received by Departments on or before March 31 is included in the revenue for the fiscal year, provided that it is deposited with the Minister of Finance prior to the fifteenth day of April, immediately following.

ii) Provincially collected taxes received by the Government in April with respect to collections made by Agents during March are recorded as revenue for the fiscal year just ended. These amounts are recorded as an account receivable from these agents as at March 31.

iii) Money received pursuant to shared-cost agreements and arrangements that extend over more than one fiscal year is recorded as revenue in each fiscal year in proportion to the related expenditure made in the respective year. Accordingly, the uncollected balance of the shared-cost claims related to the fiscal year being reported will be included in the revenue of that fiscal year.

iv) Revenue and expenditure are recorded in gross amounts (referred to as the Gross Accounting Concept) with the exception of the Municipal Share of Individual and Corporation Income Taxes, which is paid to Municipalities in accordance with the Provincial-Municipal Tax Sharing Act and is not recorded as revenue by the Government.

v) Recoveries from Crown Corporations and Government Agencies of the debt servicing costs on self-supporting debt and certain investment income are recorded as a reduction of Public Debt expenditure.

B EXPENDITURE

Expenditure is recorded on a cash basis, modified to allow an additional forty-five days after the end of the fiscal year for the processing of payments pertaining to that fiscal year. Salaries and wages, however, are charged to the fiscal year in which they are paid. As well, an accrual is made to March 31st for interest payable on bonds, debentures and other long term debt.

III. ASSETS AND LIABILITIES

1. The assets and liabilities reported in the financial statements are financial claims consisting of assets which are claims by the Government on other parties and liabilities which are claims by other parties on the Government.

2. Expenditure for the acquisition and/or construction of physical assets together with inventories and other deferred expenditures is not considered to differ from any other service to the Public and accordingly is treated as operating expenditure of the year in which the expenditure is made. Since such expenditure does not represent financial claims on others, it is not reported as an asset at fiscal year-end. This does not negate the fact that the Government has substantial holdings of physical assets such as buildings, highways, education and health facilities, which may tend to appreciate in value over time.

3. Amounts loaned, advanced or invested in Crown Corporations, Agencies, Boards and Commissions are subject to annual revaluation. An Allowance For Losses On Realization Of Assets is provided and is adjusted annually to reflect the estimated change in value of these assets.

4. Bonds, debentures and other long term debt are recorded as liabilities at the par value of such securities and any discount, premium or commission expense is treated as an expenditure of the year in which it is incurred. For foreign issues, the par value is converted to Canadian Funds at the exchange rate in effect at the date of issue, or the actual conversion rate of the proceeds. Sinking funds are maintained in accordance with the legal requirements of the debt instruments and the Financial Administration Act.

IV. GUARANTEED AND INDIRECT LIABILITIES

In addition to having direct debt, the Government also acts as a guarantor of securities issued by various other entities. The debt guaranteed pertaining to Crown Corporations, Agencies, Boards and Commissions is largely self-supporting. Other guaranteed debt for schools, universities and hospitals is serviced in whole or in part from appropriations of the Consolidated Fund. Legislation requires the maintenance of Sinking Funds for the retirement of the debt of most Crown Corporations, Agencies, Boards and Commissions. These Sinking Funds are maintained by the Minister of Finance through annual contributions from the Crown Corporation, Agency, Board or Commission to whom the debt applies and are held in the Trust Fund.

Other Contingent Liabilities that result from other financial activities of the Government are also reported annually in the Public Accounts.

APPLICATION

The following outlines the application of these accounting policies to the financial transactions of the Government:

I. REVENUE

The revenue of the fiscal year is generally the amount received during the fiscal year. Exceptions are made for provincially collected taxes, shared-cost receipts, and Revenue from the Government of Canada, which are subject to the following additional practices:

a) Provincially collected taxes received by the Government in April with respect to collections made by Agents during March are recorded as revenue for the fiscal year just ended. These amounts are recorded as an account receivable from these agents as at March 31.

b) Where, pursuant to an agreement or arrangement, money is received in advance relating to projects for which expenditure is to be made in more than one fiscal year, the money is deemed to have been received in each fiscal year in proportion to the related expenditure made in the respective fiscal year. A statement of the amounts not taken into Revenue (Deferred Revenue) is included in Section 4 of the Public Accounts.

c) It is the practice to show the uncollected balance of claims related to shared-cost agreements with the Government of Canada as an accounts receivable at March 31. This accrual is made in order that the revenue from this source is recorded in proportion to the related expenditure incurred in the fiscal year.

d) An additional practice is in effect regarding revenue from the Government of Canada under the Canada-Manitoba Fiscal Arrangements. The accounts are kept open until June 30 to reflect any adjustments to this revenue for the fiscal year just ended that the Government of Manitoba may become aware of before that date. Since this is the Government's largest single source of revenue, this practice is considered necessary to show the financial condition of the Government in the most accurate manner possible.

II. EXPENDITURE

The expenditure of the fiscal year is essentially the payments made from appropriations during the fiscal year and for a subsequent forty-five day period after March 31. The accounts remain open during this period to allow processing time for expenditure pertaining to the fiscal year just ended.

An exception to this procedure is made for the interest cost on the long-term debt of the Government. In this regard, an accrual is made to March 31st for the interest payable on bonds, debentures and other long term debt. In the case of foreign issues, the accrual is based on the exchange rate that was recorded at the time of debt issue. There is no provision made for the fluctuation of foreign currencies between the debt issue dates and the interest payment dates.

The Allowance For Losses On Realization Of Assets is not charged to an appropriation. This amount, which represents an estimate of the change in recoverable value of the loans, advances and investments in Crown Corporations, Agencies, Boards and Commissions during the fiscal year, is not shown on the Statement of Revenue and Expenditure. It is reported on the statement that discloses the Excess of Liabilities Over Recorded Assets unless there is a legal realization of the loss, in which case the final write off of the loan advance or investment will be disclosed after the operating results on the Summary of Revenue and Expenditure. The final write off of the loan, advance or investment will be detailed as to the year in which the allowance was recorded.

Payments made by the Government for the purposes of acquiring property or physical assets are classified in a separate category of expenditure called "Expenditures Related to Capital Assets" and are defined as follows:

a) Expenditures for property of all kinds, both real property and chattels, purchased or self-constructed for use by Government that are deemed to have an economic life in excess of one year.

b) Expenditures for projects or activities which entail major renewals, modification or modernization by own labour forces or on behalf of the Government. The expenditures should significantly prolong the expected economic life of the asset.

c) The principal portion of a debt repayment when the debt was incurred to acquire a physical asset and the acquisition cost of the physical asset was not previously reflected in the consolidated fund as an expenditure.

d) Grants or assistance payments to municipalities, school divisions, external agencies, commercial organizations and private individuals which are known to be for the purchase, construction or improvement of physical assets.

III. ASSETS AND LIABILITIES

The statement of Assets and Liabilities is prepared in accordance with the following practices:

1. **TEMPORARY INVESTMENTS**
This category includes securities held as a result of the investment of the Government's cash flow and is generally comprised of money market instruments such as term deposits and negotiable securities which are intended to be held for a short term. All investments are shown at cost.

2. **ADVANCES AND OTHER RECEIVABLES**
Advances to Crown Corporations, Agencies, Boards and Commissions, which are generally interest bearing, are shown under this heading as well as financial claims on the Government of Canada and other parties. Amounts due within one year of the statement date are shown as "Current Amounts" and all others are classified as "Not Current". Balances under the advances category are not separated into a current portion and non-current portion even though repayment schedules may exist for some of these items. The Sinking Funds provided by Crown Corporations, Agencies, Boards and Commissions for repayment of the debt issued to fund advances to these entities are deducted from the advances.

   Certain of the Crown Corporations are charged with a responsibility for administering Government programs for which they receive funds from Government appropriations. These funds are applied by the Corporation towards the program administration cost, including, in some cases, a portion of the interest they are charged on these advances. The principal repayment and/or interest charges for certain of the advances are dependent on total or partial funding from future appropriations of the Operating Fund.

3. **LONG-TERM INVESTMENTS**
The majority of the Province's long-term investments consist of shares and debentures of Crown Corporations. These investments are carried at cost which does not reflect the realizable value of the investments. Any decrease in the estimated realizable value is provided for in the Allowance For Losses On Realization Of Assets, which is described in the next paragraph.

4. **ALLOWANCE FOR LOSSES ON REALIZATION OF ASSETS**
An allowance is provided for decreases in the value of loans, advances and investments and is adjusted annually for changes that may occur in the estimated realizable value of these assets. The allowance is intended to provide for the accumulated deficits of the Crown Corporations, Agencies, Boards and Commissions in which the Government has invested money by way of loans, advances or purchases of shares. The valuation is based on the most recent audited financial statements applicable to the fiscal year being reported that are available at the time of publication of the Public Accounts. If the Government has more than one type of investment in an organization (eg. common shares, preferred shares and debentures), the accumulated deficit is assigned against the investments in order of priority on liquidation.

5. **SERIAL DEBENTURES OF SCHOOL DIVISIONS AND DISTRICTS, TRANSFERRED FROM THE MANITOBA SCHOOL CAPITAL FINANCING AUTHORITY**
The School Capital Financing Authority Act was repealed effective April 1, 1983 at which date all investments and money held by the Authority, as well as debt payable by the Authority, were assumed by the Government. The investments transferred to the Government consist of serial debentures issued by school divisions and districts for which the Government is primarily responsible for repayment. Accordingly, an annual appropriation is made in the Consolidated Fund to cover the principal and interest costs of these debentures.

   The cash drawn from this appropriation for the required annual principal repayments is transferred to the Province's sinking fund where it will be used for repayment of the debt assumed from the authority. A similar treatment would be accorded any proceeds from the sale of the school debentures.

6. **EXCESS OF LIABILITIES OVER RECORDED ASSETS**
This account represents the difference between liabilities which are financial claims owing by the Government, and recorded assets, which are financial claims receivable by the Government. Since the physical assets and materials inventories of the Government do not constitute a financial claim receivable by the Government, they are not considered in the determination of this balance.

7. **AMOUNT OWING TO TRUST FUND**
A large portion of this money has been deposited with the Minister of Finance in accordance with the terms of the legislation regulating the management of sinking funds and surplus cash of Crown Corporations, Agencies, Boards and Commissions, but is not specifically invested. Such deposits are accorded a market rate of interest.

8. **BANK OVERDRAFT AND PROMISSORY NOTES**
This category represents the net overdraft in Government bank accounts adjusted for cheques issued prior to and not presented for payment at March 31 and for cash in transit. Short term promissory notes are issued in lieu of increasing bank overdraft or liquidating investments to accommodate fluctuations in the cash flow cycle and are therefore considered together with the bank overdraft. Cheques issued subsequent to March 31 but chargeable to the fiscal year just ended are described in the next category.

9. **ACCOUNTS PAYABLE, ACCRUED CHARGES AND FUNDS SUBJECT TO CALL**
Cheques issued during the forty-five day period after March 31, in payment for goods and services pertaining to the fiscal year just ended are shown as accounts payable rather than as outstanding cheques.

Accrued charges represent the accrual of interest on provincial securities.

Funds subject to call consist in part of money received from the Government of Canada that will not be taken into revenue until earned. This was earlier described as Deferred Revenue in paragraph 1b). As well, this category includes the liability for uninvested cash belonging to the Provincial Sinking Fund. This cash is designated as part of the Provincial Sinking Fund and must be kept available for investment.

10. **BONDS, DEBENTURES AND OTHER LONG TERM DEBT**
This category includes bonds, debentures, secured loans from the Government of Canada, treasury bills and notes. Securities issued in Canadian Funds are recorded at par value. Securities issued in foreign funds are recorded at the Canadian Dollar equivalent of the par value based on the actual conversion of the proceeds or at the exchange rate in effect at the date of issue if conversion does not take place at issue date. Securities payable in foreign funds issued for the purpose of refunding other issues payable in the same currency are recorded at the Canadian Dollar equivalent of the par value at the date of issue.

The Government is required, by legislation, to determine the Canadian Dollar equivalent of provincial securities issued in foreign currencies or units of monetary value at March 31st of each year. The amount determined must be published in the Public Accounts as information regarding the current valuation of this foreign debt. This statement is included in Section 3 of the Public Accounts.

11. **SINKING FUNDS PROVIDED**
Sinking Funds are maintained in accordance with the legal requirements of the debt instruments and the Financial Administration Act. Money is allocated annually to these sinking funds on the following basis:

a) A sum equal to 3% of the aggregate amount of general purpose debt, in Canadian Dollars, outstanding at the end of the preceding fiscal year; and

b) All earnings derived from investing the sinking fund.

In addition principal repayments of advances which are funded by the issue of provincial securities are deposited to the sinking fund provided that the principal repayments are made prior to the maturity date of such securities.

The total shown for sinking funds also includes sinking fund money provided by Crown Corporations, Agencies, Boards and Commissions in respect to debt incurred on their behalf by the Government.

12. **DEBENTURES ISSUED UNDER FINANCIAL ASSISTANCE AGREEMENTS**
Bonds, debentures and other securities include debentures issued under agreements with the Credit Union Stabilization Fund and Les Fonds de Securite des Caisses Populaires whereby these organizations received advances in the form of provincial debentures which are required to be cancelled at maturity. The purpose of this arrangement was to provide for financial assistance to the aforementioned entities during the term of the debentures consistent with the interest payable on these debentures.

IV. TRUST FUNDS

The Trust Fund is divided into two primary divisions, Administered Trusts and Custodial Trusts. Those trusts where the Government has the responsibility for the administration and for investment of the trust are considered Administered Trusts. Those trusts where the Government responsibility is custodial in nature and there is little or no administration responsibility are considered Custodial Trusts. Generally, the responsibility for investment of a Custodial Trust is that of the depositor. A statement of Assets and Liabilities for the Trust Fund is included in the Public Accounts showing the assets and liabilities for Administered Trusts. Details of Custodial accounts are set out in a note to the statement of Assets and Liabilities.

Administered Trusts are divided into five categories:

1. Sinking Funds—This category includes sinking fund contributions deposited with the Minister of Finance by Crown Corporations, Agencies, Boards and Commissions in respect of their direct debt.
2. Funds on Deposit For Investment—Funds surplus to the immediate cash requirement of Crown Corporations, Agencies, Boards and Commissions are deposited for investment with the Minister of Finance. Although certain of these deposits are covered by specific investments in the Trust Fund, the majority of these funds are invested with the Minister of Finance and interest is paid at market rates in accordance with the term of the investment.
3. Banking Facility Accounts—These accounts are operated for those Crown Corporations, Agencies, Boards and Commissions who bank with the Minister of Finance.
4. Operating Trusts—Certain trusts are established where legislation or agreements require receipts and related expenditure to be kept separate from government revenue and expenditure. These "designated trusts" may, in some cases, be used for programs similar to those operated from appropriated funds but are kept separate because a trust requirement has been established. A separate Statement of Receipts and Payments is prepared for each of these operating trusts and is published in the Trust Fund section of the Public Accounts.
5. Miscellaneous Trusts—This category contains trust accounts resulting from the sundry deposit of cash and/or securities with the Government.

V. CHANGES IN FINANCIAL POSITION

A statement presenting the changes in the Government's financial position during the fiscal year is included in Section 1 of the Public Accounts. For purposes of this statement, working capital is defined to include the following:

a) Cash

b) Temporary Investments

c) Current portion of advances and other receivables

Minus

d) Amounts owing to Trust Fund

e) Bank overdraft and promissory notes

f) Accounts payable, accrued charges and funds subject to call

VI. CHANGES IN ACCOUNTING POLICY

Section 10 of the Financial Administration Act requires a statement of any change in the accounting policies of the Government from those followed in the preceding fiscal year. The changes for the fiscal year ended March 31, 1984 were as follows:

a) A change was made in the accounting treatment for provincially collected tax revenue to recognize the amounts collected by Agents in March which are not remitted to the Government until the following month. Accordingly, the taxes received in April, 1984 with respect to collections by agents in March, 1984 amounting to $46,507,502 have now been recorded as an account receivable at March 31, 1984 and have been included in the related revenue accounts for the 1983-84 fiscal year. In order to accommodate the transition from the cash basis previously followed for recording this revenue, an adjustment of $40,467,716 was made through the Excess of Liabilities Over Recorded Assets Account. This amount represents remittances from Agents in April, 1983 with respect to collections by them in March, 1983.

b) Historically, school expenditures incurred between January 1 and March 31, which are recoverable from the Province and financed by school divisions from bank loans, have not been recorded as accounts payable at fiscal year end. To correct this inequity the Provincial Auditor has for several years recommended that payments to school divisions be accelerated to reflect these costs more accurately in the government's accounts in the fiscal year in which they were incurred. During the 1983-84 fiscal year the government acted to resolve this problem and to improve the financial disclosure of operating results. Consequently, payments made in April, 1983, totalling $72,083,615 which cover services provided during the period January to March, 1983 have been transferred from the Department of Education appropriation to the Excess of Liabilities Over Recorded Assets Account as a prior year adjustment. Offsetting this adjustment are payments made for the comparable period in 1984 amounting to $66,996,489 which have now been recorded as an expenditure for the 1983-84 fiscal year.

c) The accounting policy for recording repayments under the Insulation Loan Program (C.H.E.C. Program) was changed effective April 1, 1983. Previously, administrative costs were deducted from the repayments and the balance credited as principal repayment against the outstanding advances without any allowance for interest charges. In 1983-84, the administrative costs amounting to $297,481 were paid from an appropriation in the Department of Energy and Mines and interest on the aggregate amount of advances outstanding, in the amount of $1,266,101 was deducted from the payments received prior to determining the amount of principal repayment.